山東新華製藥股份有限公司
Shandong Xinhua Pharmaceutical Company Limited
(*a joint stock company established in the People's Republic of China with limited liability*)
(Stock Code: 00719)

OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The announcement of Shandong Xinhua Pharmaceutical Company Limited (the "**Company**") in relation to its proposed non-public issuance of A shares ("**Proposed A Shares Issue**") which has been published on the website of Juchao （http://www.cninfo.com.cn） (the "**Announcement**") is reproduced herein for your reference.

The Announcement was originally prepared in Chinese and the English version which is reproduced herein is provided for reference only. If there is any discrepancy between the English and Chinese version, the Chinese version shall prevail.

Pursuant to the Implementation Rules for the Non-Public Issue of Shares by Listed Companies (2020 Revision) (上市公司非公開發行股票實施細則(2020年修訂)) promulgated by the China Securities Regulatory Commission ("**CSRC**"), the board of directors of the Company (the "**Board**") shall prepare a proposal (the "**Proposal**") in connection with its non-public issuance of A shares in accordance with the requirements set out in Standards on the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 25 – Advanced Proposal and Issuance Reports on the Non-public Issue of Shares by Listed Companies (公開發行證券的公司信息披露內容與格式準則第25號－上市公司非公開發行股票預案和發行情況報告書). The said Proposal is required to be approved by the Board and shareholders of the Company in accordance with the Administrative Measures for the Issuance of Securities by Listed Companies (上市公司證券發行管理辦法) and the Non-public Issue of Shares by Listed Companies (2020 Revision) (上市公司非公開發行股票實施細則(2020年修訂)) promulgated by the CSRC.

In the paragraph headed "I. Analysis on the impact of risks arising from dilution of current returns by the non-public issuance on the key financial indicators – (II) Impact on key financial indicators" in Section VII – Dilution of Current Returns and Remedial Measures of the Announcement, the net profits attributable to the shareholders of the Company in the current financial period (i.e. the financial year ending 31 December 2021) before and after deduction of non-recurring items (the "**Relevant Information**") are disclosed. The inclusion of the Relevant Information in the Announcement is required under applicable laws and regulations of the People's Republic of China.

While the Relevant Information constitutes a profit forecast under Rule 10 of the Codes on Takeovers and Mergers (the "**Takeovers Code**") issued by the Securities and Futures Commission of Hong Kong (the "**SFC**"), shareholders and other investors should note that the Relevant Information, and any assumptions on which the Relevant Information were based, have not been prepared in compliance with the standards of care required under Rule 10 of the Takeovers Code and has not been reported on by financial advisers, auditors or accountants in accordance with the said Rule 10. Therefore, the Relevant Information should not be relied upon as a forecast of any future profitability or other financial position of the Company. Shareholders and other investors should exercise caution when reading and interpreting the Relevant Information and when assessing the merits or demerits of the Proposed A Shares Issue and dealing or investing in the shares or other securities of the Company.

An application has been made to the Executive Director of the Corporate Finance Division of the SFC (the "**Executive**") for a waiver from reporting requirements set out in Rule 10 of the Takeovers Code, and the Executive has indicated that it is minded to grant such a waiver.

By Order of the Board
Shandong Xinhua Pharmaceutical Company Limited
Zhang Daiming
Chairman

14 April 2021, Zibo, PRC

As at the date of this announcement, the Board comprises:

Executive Directors:

Mr. Zhang Daiming *(Chairman)*
Mr. Du Deping
Mr. He Tongqing

Independent Non-executive Directors:

Mr. Pan Guangcheng
Mr. Zhu Jianwei
Mr. Lo Wah Wai

Non-executive Directors:

Mr. Cong Kechun
Mr. Xu Lie

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statements in this announcement misleading.

Shandong Xinhua Pharmaceutical Company Limited

2021 PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

April 2021

COMPANY'S STATEMENT

I. The Company and all members of the Board of Directors guarantee that the contents of the proposal are true, accurate and complete without false records, misleading statements or major omissions.

II. Upon completion of the Non-Public Issuance of A Shares, any change in the operation and revenue shall be borne by the Company at its own risk, and any investment risk arising from the Non-Public Issuance of A Shares shall be assumed by the investors.

III. The proposal is the description of the Non-Public Issuance of A Shares by the Board of Directors of the Company, and any statement to the contrary shall be misrepresentation.

IV. Investors should consult their own stockbrokers, lawyers, professional accountants or other professional advisers if in doubt.

V. The matters mentioned in the proposal do not represent the substantive judgment, confirmation, approval or verification of the approving authorities on the matters relating to the Non-Public Issuance of A Shares. The effectiveness and completion of the matters related to the Non-Public Issuance of A Shares mentioned in the proposal are still subject to the approval and verification of relevant approving authorities.

SPECIAL REMINDERS

I. The matters relating to the Non-Public Issuance of A Shares have been reviewed and approved by the second extraordinary meeting of the tenth session of the Board of Directors of the Company. The Non-Public Issuance shall still be subject to the approval of the state-owned assets supervision and administration department, the granting of the whitewash waiver from the Securities and Futures Commission of Hong Kong ("**SFC**"), the review and consideration by shareholders in general meeting and class meetings as well as the approval and verification by the CSRC.

II. The target subscriber of the Non-Public Issuance shall be Hualu Investment, which is the wholly owned subsidiary of the Company's controlling shareholder, Hualu Holdings. Hualu Investment has signed the conditional share subscription agreement with the Company. The Non-Public Issuance constitutes a connected transaction. The affiliated directors shall abstain from voting when reviewing and considering relevant proposals of the Non-Public Issuance by the Board of Directors. The affiliated shareholders shall abstain from voting when the relevant proposals are submitted to the general meeting of shareholders for review and consideration.

III. The number of shares under the Non-Public Issuance shall not exceed 36,284,470 (included), and the number of shares in issue shall not exceed 30% of total share capital of the Company before the Non-Public Issuance. The final issue size shall be determined by negotiations between the Company's Board and the sponsor (principal underwriter) in accordance with the authorisation of the general meeting of shareholders. If there are any ex-right and ex-dividend issues such as dividend distribution, bonus issue and capitalisation issue during the period from the pricing benchmark date to the issuance date, the number of shares for the Non-Public Issuance shall be adjusted accordingly.

If the total number of shares of the Non-Public Issuance and the raised proceeds are to be adjusted due to changes in regulatory policies or the requirements of the Issuance approval documents, the number of shares in issue of the Company and the raised proceeds will be adjusted accordingly

IV. The issuance price for the Non-Public Issuance shall be 6.89 yuan per share.

The pricing benchmark date of the Non-Public Issuance shall be the date of the announcement of the second extraordinary resolution of the tenth session of the Board of Directors in 2021 (April 15, 2021). The issuance price of shares shall not be lower than 80% of the average trading price of shares during the 20 trading days prior to the pricing benchmark date (the average trading price of shares during the 20 trading days prior to the pricing benchmark date equals the total trading amount of shares traded during the 20 trading days prior to the pricing benchmark date, divided by the total trading volume of shares during the 20 trading days prior to the pricing benchmark date), or the unaudited amount of net assets per share attributable to the holders of ordinary shares of the parent company in the most recent year (prior to the pricing benchmark date), whichever is higher (rounded to take 2 decimal places).

If there are any ex-right and ex-dividend issues such as dividend distribution, bonus issue and conversion of capital reserves into share capital on the A shares during the period from the pricing benchmark date to the issuance date, the issuance price of the Non-Public Issuance will be adjusted accordingly.

V. The total raised proceeds for the Non-Public Issuance shall not exceed RMB 250 million (included), and all of the net proceeds after deducting issue expenditure will be used to repay the interest-bearing liability and supplement the working capital of the Company. Hereinto, the amount of the proceeds used to repay the interest-bearing liability shall not exceed RMB 140 million, and the rest of the proceeds shall be used for supplementing the working capital of the Company.

VI. No shares under the Non-Public Issuance subscribed for by Hualu Investment shall be transferrable within 36 months from closing of the Issuance. After the lock-up period, it will be implemented in accordance with the relevant requirements of the CSRC and the Shenzhen Stock Exchange.

VII. For details of the profit distribution policies, cash dividends for the recent three years and shareholders' return plan for the next three years of the Company, please refer to "Section VI Profits Distribution Policies and Dividends Distribution of the Company" of the proposal.

VIII. The Non-Public Issuance of A Shares will not result in change in controlling shareholders or actual controller of the Company. The Non-Public Issuance of shares will not cause the shareholding structure of the Company to fail to meet the listing requirements.

IX. For the details of whether the Issuance will dilute the immediate returns, please refer to "Section VII The Risk for Dilution of Immediate Returns and Remedial Measures" of the proposal.

And in the meantime, the Company especially reminds investors that in the process of analysing the dilution impact of the Issuance on the immediate returns, the assumption made in relation to the net profit does not constitute a profit forecast of the Company, and the remedial measures to cope with the potential dilution of the immediate returns are not a guarantee of the future profit of the Company.

X. The validity of this proposal of the Non-Public Issuance of A Shares shall be 12 months from the date of the review and approval by the general meeting of shareholders.

XI. The Board of Directors especially reminds investors to carefully read the relevant contents "Section V: VI. Risk Factors concerning the Issuance" in the proposal and pay attention to investment risks.

CONTENTS

DEFINITIONS

In this proposal, the following abbreviations shall have the specific meaning stated in the definition unless otherwise specified:

Abbreviation		Definition
this proposal	Refers to	2021 Proposal for Non-Public Issuance of A Shares of Shandong Xinhua Pharmaceutical Company Limited
Xinhua Pharmaceutical, Issuer, Listed Company, The Company, Company	Refers to	Shandong Xinhua Pharmaceutical Company Limited
Hualu Holdings, Controlling Shareholder	Refers to	Hualu Holdings Co. Ltd.
Hualu Investment, Target subscriber	Refers to	Hualu Investment Development Co. Ltd.
The Non-Public Issuance of A Shares, The Non-Public Issuance, The Issuance	Refers to	2021 Non-Public Issuance of A Shares of Shandong Xinhua Pharmaceutical Company Limited
Well Bring	Refers to	Well Bring Ltd., Hong Kong
Board, Board of Directors	Refers to	Board of Directors of Shandong Xinhua Pharmaceutical Company Limited
general meeting of shareholders	Refers to	General meeting of shareholders of Shandong Xinhua Pharmaceutical Company Limited
Articles of association	Refers to	Articles of association of Shandong Xinhua Pharmaceutical Company Limited
National Health Commission	Refers to	National Health Commission of the People's Republic of China
Shandong Provincial SASAC	Refers to	Shandong Provincial State-owned Assets Supervision and Administration Commission
CSRC	Refers to	China Securities Regulatory Commission
Company Law	Refers to	Company Law of the People's Republic of China
Securities Law	Refers to	Securities Law of the People's Republic of China

Abbreviation		Definition
CMO	Refers to	Contract Manufacture Organization, a contract processing outsourcing organisation. It is mainly commissioned by pharmaceutical companies to provide process development, formulation development, clinical trial medication, chemical or bisynthetic raw material production, intermediate manufacturing, preparation production (such as powder, injection) required for product production and packaging and other services
CRO	Refers to	Contract Research Organization, a contract customised research and development institution, which mainly provides preclinical drug discovery, preclinical research and clinical trials services to pharmaceutical and biotechnology companies
yuan, ten thousand yuan, one hundred million yuan	Refers to	RMB Yuan, RMB ten thousand Yuan, RMB one hundred million Yuan
recent three years and the first period, reporting period	Refers to	2018, 2019, 2020 and January 2021 to March 2021

SECTION I SUMMARY OF THE NON-PUBLIC ISSUANCE OF SHARES

I. Basic information of the Issuer

Company Name	Shandong Xinhua Pharmaceutical Company Limited
English Name	Shandong Xinhua Pharmaceutical Company Limited
Listing exchange of its shares	Shenzhen Stock Exchange, The Stock Exchange of Hong Kong Limited
Abbreviation of Stock	Xinhua Pharm, Shandong Xinhua Pharm
Stock Code	000756.SZ, HK.00719
Legal representative	Mr. Zhang Daiming
Registered capital	RMB 627,367,447.00
Registered address	Chemical Industry Area of Zibo Hi-tech Industry Development Zone, Zibo City, Shandong Province
Office address	No. 1 Lutai Ave., Hi-tech Industry Development Zone, Zibo City, Shandong Province
Unified Social Credit Code	913703001641037 27C
Place of Registration	Zibo Municipal Administration of Industry and Commerce of Shandong Province
Postal code	255086
Tel.	86-533-2166666
Fax	86-533-2287508
Company website	http://www.xhzy.com
E-mail	xhzy@xhzy.com
Business Scope	Production, wholesale, retail of western medicine, chemical raw materials, food additives, health food, solid drinks, veterinary drugs, fish oil, pharmaceutical equipment, medical testing instruments and meters; technology transfer, service, technical consultation and technical training for self-developed projects; wholesale, retail of Chinese medicinal materials, Chinese medicine pieces, medical device (class I, II , III), contact lens and care solution, test paper (reagent), health food, maternal/baby products, dairy products (including infant formula), cosmetics, washing products, prepackaged food, bulk food, daily necessities, primary agricultural products, seafood, adult family planning products; sales of chemical substances, chemical products, chemical reagents, pharmaceutical intermediates (the above three items do not contain dangerous and precursor chemicals); imports and exports; warehouse service (no dangerous goods); Internet information consultation and service; e-commerce agency operation (for items

	requiring approval according to law, business activities can only be carried out after approval by relevant departments).

II. Background and purpose of the Non-Public Issuance of the Listed Company

(I) Background of the Non-Public Issuance

1. The State strongly supports the development of the pharmaceutical industry, and the market size of the industry continues to grow

The pharmaceutical industry is a national strategic industry and an important field related to the national economy and people's livelihood. The guideline for development planning of pharmaceutical industry by the Ministry of Industry and Information Technology states that the pharmaceutical industry is an important industry related to the national economy and people's livelihood, a key field for cultivating and developing strategic emerging industries, and an important guarantee for promoting the construction of a healthy China. *The Pharmaceutical Administration Law of the PRC (Revision), Opinions on the implementation of the Healthy China* and other policies promulgated guide the direction of industry development, encourage the research and innovation of pharmaceutical enterprises, and has brought opportunities to the development of the pharmaceutical industry. The proportion of health expenditure in GDP in China rose from 6.05% in 2015 to 6.64% in 2019, which also reflects the continuous improvement of national support for medical and health care.

With the rapid development of the national economy, the significant improvement of residents' living standards, the continuous improvement of the medical and health system, and the acceleration of the aging population, people increasingly pay attention to health problems, and the pharmaceutical industry in China has also achieved rapid development. According to the Statistical Communique on the Development of China's Health Industry released by the National Health Commission, China's total health expenditure is expected to reach 6.52 trillion yuan in 2019, an increase of 59.02% from 4.10 trillion yuan in 2015, with a compound annual growth rate of 14.76%. The market size of the pharmaceutical industry has maintained steady growth.

2. The core strategy of the Company has been steadily promoted, and the quality of operations has continuously improved

In 2020, the Company actively responded to the impact of COVID-19, the intensification of market competition and many other factors, vigorously promoted the strategy of large-scale preparations, internationalisation strategy, large-scale research and development strategy, and continued to improve the quality of operations.

The pharmaceutical preparations business will continue to promote the strategy of large-scale pharmaceutical preparations, focusing on the development of several major varieties such as Glimepiride Tablets, Rabeprazole Sodium Enteric-coated Tablets, etc., and increase in production and marketing, with rapid sales growth. In 2020, the sales volume of the Company's ten strategic varieties of preparations increased by 56.27% year-on-year, among which the sales volume of the varieties of Glimepiride Tablets, Rabeprazole Sodium Enteric-coated Tablets and Cefradine capsules increased by 68.2%, 52% and 145.3%, respectively.

The internationalisation strategy has accelerated. In 2020, the Company's export earned foreign exchange reached 294 million US dollars, with a year-on-year growth rate of 12.96%. The International Cooperation Center of Modern Medicine which has a production capacity of 20 billion tablets passed the inspection by the US Food and Drug Administration with zero defects in the first period; Xinhua Perrigo preparation project with a production capacity of 5 billion tablets officially launched commercial production, achieved exports of 300 million tablets that year; and oseltamivir capsules, EPA soft capsules and other projects with the international cooperation officially launched. Through CRO and CMO, the Company has realised the transformation of its long-term global development strategy.

In the recent three years, the Company's research and development expenditure was 186,975,800 yuan, 235,401,000 yuan and 298,347,300 yuan, respectively. With the continuous increase in research and development investment, the company's research and development capacity has rapidly improved. In 2020, the Company set up the Clinical and Biomedical Research Institute of Xinhua Pharma (Central South), Xinhua Pharma (Jinan) Joint Research Institute and the Joint Research Center of Xidan International Medicine of Xinhua Pharma (Guangdong). The consistency evaluation has also entered the harvest period. In 2020, a total of 11 products and 16 specifications have passed the consistency evaluation, and the core competitiveness of the Company continues to improve.

(II) The Purpose of the Non-Public Issuance

1. Enhancing the capital strength and guaranteeing the capital need for the Company’s development

In 2018, 2019 and 2020, the operating revenue of the Company was 5.245 billion yuan, 5.606 billion yuan and 6.06 billion yuan respectively, with a compound annual growth rate of 9.76% for the most recent three years. With the continuous expansion of the Company's business scale, the Company's demand for working capital will continue to grow.

The Company belongs to the pharmaceutical manufacturing industry, and its business involves chemical raw materials, preparations, pharmaceutical intermediates and other fields. It has high expectations on production, circulation and management. The Company has a continuous demand for purchase, maintenance and reconstruction of fixed assets and projects under construction, and incurs large expenditure each year. The industry that the Company operates in is a technology-intensive industry. In order to maintain its competitive edge and sustainable development capabilities, the Company needs to continue to increase investment in research and development and technology improvement; in addition, in order to further expand and optimise the Company's distribution in CRO, CMO and other business areas, the Company will also increase its research and development expenditure in the future. With the steady development of the business and increasing working capital requirements, the raising of funds to supplement the working capital will be conducive to the Company’s resources integration, and accelerate the Company’s development strategy, strengthen the foundation of sustainable development, lay a foundation for the healthy, stable and sustainable development of the Company and finally maximise shareholders’ interests.

2. Optimising the asset structure and improve the ability to resist risks

As of March 31, 2021, the Company's combined asset-liability ratio was 51.43%, far higher than the average level of listed companies in the same industry. The ability to expand the size of the Company's business is limited to the Company's overall capital and debt position to some extent. On the other hand, under the changes in the external environment such as Covid-19 and international trade friction, it has a great impact on various industries, the pharmaceutical industry specifically, which imposes higher requirements for the robustness of its capital structure, the ability of business risk resistance and operational flexibility.

Raising proceeds through the Non-Public Issuance will increase the capital of the Company, reduce the asset-liability ratio of the Company, supplement the working capital, optimise the capital structure of the Company, further improve the financial position, reduce the financial risks and enhance the ability to resist risks.

III. Target subscriber and its relations with the Company

The target subscriber of the Non-Public Issuance is Hualu Investment, which is the wholly owned subsidiary of Company's controlling shareholder, Hualu Holdings. The target subscriber will subscribe for all shares under the Non-Public Issuance in cash.

Up to the announcement of the proposal, Hualu Holdings directly holds 204,864,092 shares, accounting for 32.65% of the total share capital, and is the controlling shareholder of the Company. Hualu Holdings and its subsidiaries hold 229,835,060 shares in the Company in aggregate, which accounts for 36.63% of the total share capital. Hualu Investment, the target subscriber of the Non-Public Issuance directly holds 4,143,168 shares, accounting for 0.66% of the total share capital of the Company.

The target subscriber of the Non-Public Issuance is the Company's connected party, so the Non-Public Issuance constitutes a connected transaction. The target subscriber complies with the requirements of laws and regulations, and for the basic information of the target subscriber, please refer to "Section II Basic information of the target subscriber" of the proposal.

IV. Summary of the Non-Public Issuance plan

1. Class and par value of the shares to be issued

The shares under the Non-Public Issuance are domestically-listed and RMB denominated ordinary shares (A shares) with a par value of RMB1.00 per share.

2. Method and timing of the Issuance

The shares will be issued to a specific target through the Non-Public Issuance, which will be implemented during the validity period of the approval from the CSRC.

3. Target subscriber and subscription method

The target subscriber of the Non-Public Issuance shall be Hualu Investment, which is the wholly owned subsidiary of controlling shareholder, Hualu Holdings. Hualu Investment will subscribe for all shares under the Non-Public Issuance in cash.

4. Pricing principle and issuance price

The issuance price for the Non-Public Issuance shall be 6.89 yuan per share.

The pricing benchmark date of the Non-Public Issuance shall be the date of the announcement of the second extraordinary resolution of the tenth session of the Board of Directors in 2021 (i.e. April 15, 2021). The issuance price of shares shall not be lower than 80% of the average trading price of shares during the 20 trading days prior to the pricing benchmark date (the average trading price of shares during the 20 trading days prior to the pricing benchmark date equals the total trading amount of shares traded during the 20 trading days prior to the pricing benchmark date, divided by the total trading volume of shares during the 20 trading days prior to the pricing benchmark date), or the unaudited amount of net assets per share attributable to the holders of ordinary shares of the parent company in the most recent year (prior to the pricing benchmark date), whichever is higher (rounded to take 2 decimal places).

If any ex-right and ex-dividend event such as cash dividends, bonus shares and conversion of capital reserves into share capital occurs in respect of the A shares of the Company during the period from the pricing benchmark date to the issue date of the Non-Public Issuance, the issuance price shall be adjusted accordingly. The specific adjustment formula is as follows:

Distribution of cash dividends: $P1=P0-D$

Bonus shares or convertion into share capital: $P1=P0/(1+N)$

Combination of both: $P1=(P0-D)/(1+N)$

Where: P0 denotes the issuance price before adjustment; D denotes the cash dividend per share; N denotes the number of shares distributed as bonus shares or converted into share capital per share; P1 denotes the issuance price after adjustment.

5. Number of shares to be issued

The number of shares in issue under the Non-Public Issuance shall not exceed 36,284,470 (included), the number of shares in issue shall not exceed 30% of total share capital of the Company before the Non-Public Issuance, and the number of shares under the Non-Public Issuance shall be subject to the final approval of the CSRC. The final issue size shall be determined by the negotiations between the Company's Board and the sponsor (principal underwriter) in accordance with the authorisation of general meeting of shareholders and the relevant regulations of the CSRC.

Based on the calculation in accordance with the proposed subscription amount of the target subscriber and the price of the Non-Public Issuance, the proposed subscription amount and subscription number of shares of the target subscriber are as follows:

No.	Target subscriber	Proposed subscription shares	Proposed subscription amount (ten thousand yuan)
1	Hualu Investment	36,284,470	25,000
Total		**36,284,470**	**25,000**

Note: Subscription number=subscription amount/issuance price. If the subscription number calculated according to the formula is insufficient for the integral share, the number of shares shall be the lower integral share.

If any ex-right or ex-dividend event such as cash dividends, bonus shares and conversion of capital reserves into share capital, share placing or otherwise occurs during the period from the pricing benchmark date of A shares to the date of the Non-Public Issuance, the limit of number of shares under the Non-Public Issuance and the proposed subscription number of shares shall be adjusted accordingly.

If the total number of shares under the Non-Public Issuance changes due to the laws and regulations or regulatory policies or decreases according to the requirements of the Issuance approval documents, the Board or its authorised person shall make adjustments on the subscription amount and the number of shares of the target subscriber according to the authorisation of the general meeting of shareholders on the basis of the laws and administrative regulations and related requirements of the CSRC.

6. Lock-up period

None of the A shares subscribed by Hualu Investment under the Non-Public Issuance shall be transferred within 36 months from the completion of the Issuance. The shares derived from the subscription of the underlying shares by Hualu Investment under the Non-Public Issuance due to the distribution of bonus shares and conversion of capital reserves into share capital shall also comply with the above lockup arrangements. Upon the expiration of the lock-up period, it shall be implemented in compliance with related requirements of the CSRC and the Shenzhen Stock Exchange.

7. Use of proceeds

The total raised proceeds for the Non-Public Issuance shall not exceed RMB 250 million (included), and all of the net proceeds after deducting issue expenditure will be used to repay the interest-bearing liability and supplement the working capital of the Company. Hereinto, the amount of the proceeds used to repay the interest-bearing liability shall not exceed RMB 140 million, and the rest of the proceeds shall be used for supplementing the working capital of the Company.

8. Arrangement for retained profits before the Non-Public Issuance of A Shares

After the completion of the Non-Public Issuance of A Shares, the new and existing shareholders of the Company shall be jointly entitled to the undistributed profits before the Non-Public Issuance of A Shares in accordance with the shareholding proportion after the Issuance.

9. Listing location

The A shares under the Non-Public Issuance will be listed and traded on the Shenzhen Stock Exchange.

10. Validity period of resolution regarding the Non-Public Issuance of A Shares

The resolution regarding the Non-Public Issuance of A Shares shall be valid for 12 months from the date on which the resolution is approved by the general meeting of shareholders.

V. Use of proceeds under the Non-Public Issuance of A Shares

The total raised proceeds for the Non-Public Issuance shall not exceed RMB 250 million (included), and all of the net proceeds after deducting issue expenditure will be used to repay the interest-bearing liability and supplement the working capital of the Company. Hereinto, the amount of the proceeds used to repay the interest-bearing liability shall not exceed RMB 140 million, and the rest of the proceeds shall be used for supplementing the working capital of the Company.

In case of any discrepancy between the timing of the proceeds raised by the Issuance and the actual repayment of the corresponding bank loans and other interest-bearing liabilities, the Company will repay with its own funds first and replace the funds with the proceeds by the Issuance.

Within the scope of the permission under relevant laws and regulations and authorisation of the resolutions of the general meeting of shareholders, the Board has the right to adjust or determine the specific arrangements on the investment projects for raising proceeds and the required amounts.

VI. Whether the Issuance will constitute a connected transaction

The target subscriber of the Non-Public Issuance is Hualu Investment, which is the wholly owned subsidiary of the Company's controlling shareholder Hualu Holdings. Thus, the Issuance constitutes a connected transaction with the Company.

The independent directors of the Company have expressed prior approval opinions and independent opinions. The affiliated directors shall abstain from voting when reviewing and considering relevant proposals of the Non-Public Issuance by the Board, and the non-affiliated directors have the voting rights. The affiliated shareholders shall also abstain from voting when the relevant proposals are submitted to the general meeting of shareholders for review and consideration.

VII. Whether the Issuance will cause a change in the right of control of the Company

Up to the announcement of the proposal, Hualu Holdings directly holds 204,864,092 shares, accounting for 32.65% of the total share capital, and is the controlling shareholder of the Company. Hualu Investment and Well Bring, subsidiaries of Hualu Holdings, hold 4,143,168 shares and 20,827,800 shares in the Company respectively, which accounts for 0.66% and 3.32% of the total share capital of the Company respectively. Shandong Provincial State-owned Assets Supervision and Administration Commission is the actual controller of the Company. For the Non-Public Issuance, Hualu Investment proposes to subscribe for no more than 36,284,470 shares (included). According to the calculation of the upper limit of the number of shares under the Non-Public Issuance, i.e. 36,284,470, Hualu Holdings will directly hold 30.87% of the shares in the Company and remains the controlling shareholder of the Company after the Non-Public Issuance. Hualu Investment and Well Bring, subsidiaries of Hualu Holdings, hold 40,427,638 shares and 20,827,800 shares respectively, accounting for 6.09 % and 3.14% of the total share capital after the Issuance respectively. Hualu Holdings holds 266,119,530 shares in the Company directly and indirectly, which accounts for 40.10% of the total share capital after the Issuance. Shandong Provincial State-owned Assets Supervision and Administration Commission is still the actual controller of the Company.

Hence, the Non-Public Issuance will not result in a change in right of control of the Company.

VIII. Approval obtained for the Issuance plan from the relevant competent authorities and procedures to be submitted for approval

The Non-Public Issuance plan has been reviewed and approved at the second extraordinary meeting of the 10th session of the Board of the Company in 2021 on 14 April, 2021.

The Non-Public Issuance is subject to obtaining approval from the state-owned assets supervision and administration department, the granting of the whitewash waiver from the SFC, the review and consideration by shareholders' general meeting and class meetings as well as the approval and verification by the CSRC.

After obtaining the approval of the CSRC, the Company will apply to the Shenzhen Stock Exchange and the China Clearing Corporation for matters relating to the Issuance, registration and listing of the shares under the Issuance, and complete all procedures to submitted for approval of shares of the Non-Public Issuance.

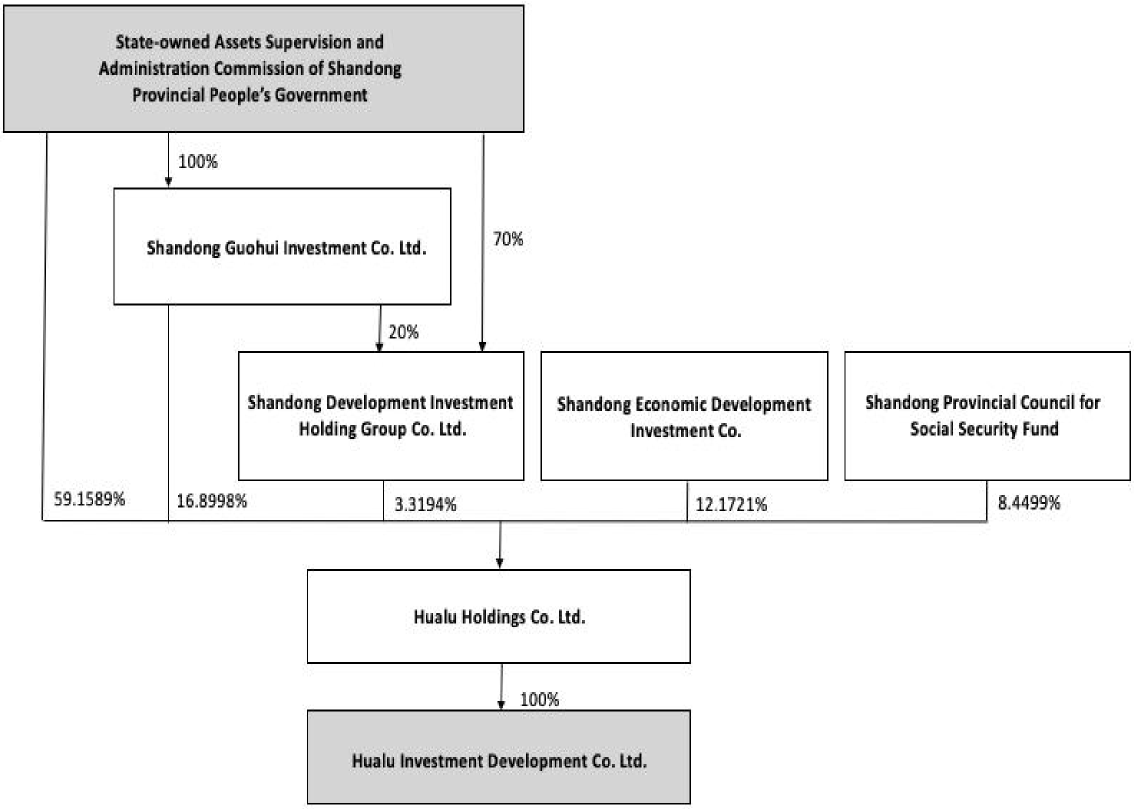
SECTION II BASIC INFORMATION OF THE TARGET SUBSCRIBER

I. Basic information

Company name	Hualu Investment Development Co. Ltd.
Registered address	21/F, Huachuang Guanli Center Building 2, No.219 Shunhai Road, High-tech Industrial Development Zone, Jinan
Legal representative	Zhang Chengyong （张成勇）
Registered capital	RMB300,000,000
Unified social credit code	91370000MA3CCJRU8T
Business scope	Investment, management and investment consultation with self-owned capital. (For projects subject to approval according to the law, business activities can only be carried out after approval by relevant departments)

II. Equity control relationship

As of the date of this announcement, the control structure chart of Hualu Investment is as follows:



III. Main business condition and development and operating results of the main business in the recent three years

Hualu Investment is a wholly-owned subsidiary of Hualu Holdings, which is responsible for the state-owned capital operation of pharmaceutical, coal chemical and environmental protection sectors in Shandong Province. According to the functions entrusted by Hualu Holdings, Hualu Investment mainly carries out market-oriented investment and financing and capital operation business, and holds part of the equity of the listed companies Xinhua Pharmaceuticals, Lukang Pharmaceuticals and Hualu- Hengsheng. In 2018, 2019 and 2020, Hualu Investment achieved a net profit of 1,444,600 yuan, 2,006,500 yuan and 2,833,400 yuan, respectively, with the main results from investment income.

IV. Hualu Investment's key financial data for the most recent year

The key financial data of Hualu Investment for the most recent year is as follows:

Unit: RMB10,000

Item	31 December 2020 /2020 year
Total assets	48,497.85
Total liability	9,212.98

Owners’ equity	39,284.87
Operating income	0.00
Operating profits	299.4
Net profits	283.34

Note: the above data has been audited by WUYIGE Certified Public Accountants LLP.

V. Description on administrative punishment, criminal punishment and major civil litigation or arbitration related to economic disputes of Hualu Investment and its directors, supervisors and senior management in the past five years

As of the date of this announcement, Hualu Investment and its directors, supervisors, senior management (or the principals) have not received any administrative punishment or criminal punishment, or been involved in major civil litigation or arbitration related to economic disputes within the past five years.

VI. After the completion of the Issuance, Hualu Investment, its controlling shareholders, the actual controller and the Company’s competition and connected transactions

After the completion of the Issuance, the business relationship between Hualu Investment, its controlling shareholders, actual controllers and the Company will not undergo substantial change. Except for the connected transaction caused by Hualu Investment’s participation in the Issuance, the Issuance will not result in new connected transactions and competition.

VII. Major transactions among Hualu Investment, its controlling shareholder, the actual controller and the Company within 24 months before the disclosure of the proposal

Please refer to the periodic reports or interim announcements disclosed by the listed Company for transactions between Hualu Investment, its controlling shareholders, actual controllers and the listed Company within 24 months before the disclosure of this proposal. Except for the transactions disclosed by the listed Company in the periodic reports or interim announcements, there is no other major transaction between the listed Company and the above connected parties. For details, please refer to the disclosure documents such as periodic reports and interim announcements published in the designated information disclosure media.

VIII. Source of funds for this subscription

The target subscriber Hualu Investment intends to participate in the subscription of the non-public development of the shares with its legal self-owned or self-raised funds.

IX. Notes on the exemption of the offer by Hualu Holdings

Upon completion of the non-public offering of shares, Hualu Investment shall hold 40,427,638 shares of the Company, and Hualu Holdings shall directly and indirectly hold 266,119,530 shares in the Company, accounting for 40.10 % of the total share capital of the Company after completion of the Issuance. Hualu Holdings controls more than 30% of the shares of the Company, resulting in the Issuance of the shares of the Company triggering the general offer obligation stipulated in the *Administrative Measures for the Administration of the Takeover of Listed Companies (2020 Revision)*.

According to the relevant provisions of Article 63 of the *Measures for the Administration of the Takeover of Listed Companies (2020 Revision)*, upon the approval of non-affiliated shareholders of the general meeting of shareholders of the listed company, if an investor acquires new shares issued by the listed company which results in the investor's interests in the listed company exceeding 30% of the shares issued by the listed company and the investor undertakes not to transfer the new shares issued to the investor within three years; and if the general meeting of shareholders of the company agrees that the investor shall be exempted from issuing an offer, the investor may be exempted from issuing a general offer.

In view of the fact that the Non-Public Issuance will not result in a change of the actual controller of the Company, and in accordance with the conditional share subscription contract signed by the Company and Hualu Investment, the Non-Public Issuance of shares subscribed by Hualu Investment shall not be transferred within 36 months from the date of the closing of the offering. Subject to the approval of non-affiliated shareholders in the general meeting of shareholders of the Company, the Board of Directors agrees to request the general meeting of shareholders to approve Hualu Investment and its concert parties to exempt themselves from the general offer in the case of exemption from the offer in accordance with Article 63 of the *Measures for the Administration of the Takeover of Listed Companies (2020 Revision)*. This proposal needs to be approved by the general meeting of shareholders, and the affiliated shareholders will abstain from voting on the relevant proposal.

SECTION III SUMMARY OF THE CONDITIONAL SHARE SUBSCRIPTION AGREEMENT

As of the date of this announcement, the Company and the target subscriber, Hualu Investment, have entered into a conditional share subscription agreement, and the main contents of which are as follows:

I. Parties to the Contract and the date of signing

Party A (Issuer): Shandong Xinhua Pharmaceutical Co. Ltd.

Party B (Subscriber): Hualu Investment Development Co. Ltd.

Date of Signing: 14 April 2021

II. Target subscriber, number of subscribed shares, pricing principles, subscription amount and lock-up period

(I) Target subscriber and number of subscribed shares

Party B intends to subscribe for 36,284,470 shares (hereinafter referred to as the Target Shares) of the Non-Public Issuance of Party A in accordance with the terms and conditions set forth herein. If there is any change in the total share capital of Party A or any adjustment in the Issuance price of Party A's A shares prior to the

Issuance due to any dividend payout, bonus shares, conversion of capital reserves into additional share capital, or share allotment, etc. during the period from the pricing benchmark date to the date of the Issuance, the upper limit of the number of shares issued by Party A and the number of shares subscribed by Party B shall be adjusted accordingly.

If the total number of shares of the Non-Public Issuance is reduced due to changes in laws, regulations or regulatory policies, or as required by the Issuance approval documents, Party A's Board of Directors or its authorised persons shall adjust the subscription amount and the number of shares subscribed by Party B according to the authorisation of the general meeting of shareholders in accordance with the relevant laws, administrative regulations and the relevant provisions of the CSRC.

(II) Pricing principles and subscription amount

The price of Party B's subscription for Party A's non-publicly issued shares is RMB 6.89 per share (the price shall not be less than 80% of the average price of Party A's A shares during the 20 trading days prior to the pricing benchmark date; or the value of Party A's unaudited net assets per share attributable to holders of ordinary shares of the parent company at the end of the most recent year prior to the pricing benchmark date, whichever is higher). In the event of dividend payout, bonus shares, conversion of capital reserves into additional capital stock and other ex-rights and ex-dividends of Party A's A shares during the period from the pricing benchmark date to the date of the Issuance, the issuance price shall be adjusted accordingly.

Party B shall pay Party A RMB 250 million (in figures: 250,000,000) for the purchase of 36,284,470 shares that are not publicly issued by Party A.

(III) Lock-up period

The underlying shares obtained through the Issuance shall not be transferred within 36 months from the completion of the Issuance. After the completion of the Issuance, the shares of Party A's non-public offering subscribed by Party B and derived from the Company's distribution of stock dividends, conversion of capital reserve into additional capital stock and other forms shall also be subject to the aforesaid lock-up arrangement. After the end of the lock-up period, the relevant provisions of the CSRC and the Shenzhen Stock Exchange shall be followed.

III. Method of payment

After the approval of the Non-Public Issuance is obtained from the CSRC, Party B shall, according to the written payment notice issued by Party A and the sponsoring institution (lead underwriter) of the Issuance, pay the full amount of the subscription fee for the Target Shares hereunder to the account specifically opened by the sponsoring institution (lead underwriter) for the purpose of the Issuance according to the specific payment date determined by Party A and the sponsoring institution (lead underwriter). The subscription funds shall be transferred to the specific deposit account of Party A for raising funds after the accounting firm completes the verification and deducts the relevant expenses. After Party B pays the subscription price, Party A shall register the shares subscribed by Party B at the securities registration and clearing institution as soon as possible.

IV. Conditions precedent for the agreement

1. This agreement shall come into force on the date when the legal representatives or authorised representatives of both parties sign and affixed their official seals, and shall come into force on the first day when all the following conditions are satisfied:

   (1) in accordance with the relevant laws and the articles of association of the Company, the approval of the plan of the Non-Public Issuance and related matters has been obtained from the Company's Board, general meeting of shareholders and A share class meeting and H share class meeting;

   (2) the approval of the whitewash waiver by the independent shareholders at the general meeting in accordance with the requirements of the Code on Takeovers and Mergers of Hong Kong ("**Takeovers Code**") and approval of a waiver in respect of the general offer obligation over the A shares by Hualu Investment and the parties acting in concert with it to be triggered as a result of the Non-Public Issuance under the relevant laws and regulations in the PRC;

   (3) the approval from the relevant state-owned assets supervision and administration authorities for the Non-Public Issuance has been obtained;

   (4) the grant of the whitewash waiver by the SFC to Hualu Investment and the parties acting in concert with it in accordance with the Takeovers Code; and

   (5) the approval from the CSRC for the Non-Public Issuance has been obtained.

2. After the conclusion of this agreement, both parties shall make active efforts to create conditions for the fulfillment of the conditions precedent for the coming into effect of this agreement. Neither party shall be held responsible for the failure of this agreement to come into effect due to reasons not attributable to both parties.

V. Liability for breach of contract

1. Any party who breaches the provisions hereof, fails to fully perform the contract, or makes any false, untrue, concealment of facts or material omission in the representations and warranties hereunder shall constitute a breach of contract. The breaching party shall indemnify the other party for losses suffered thereby, unless otherwise agreed by both parties. The non-breaching party shall have the right to require the breaching party to continue to perform its obligations and take timely remedial measures to ensure the continued performance of this contract. At the same time, the breaching party shall indemnify the non-breaching party for the aforementioned losses.

2. Party B shall pay the share subscription fund in full in accordance with the provisions of article 3 of the agreement. In case of any delay, Party B shall, from the date of such delay, pay Party A the liquidated damages at the rate of 3/10,000 of the unpaid amount per day. If Party B still fails to pay the part after ten (10) working days, Party A shall have the right to terminate this contract or execute this contract according to the part paid by Party B. No matter whether Party A elects to terminate this contract or to execute this contract according to part of the amount paid by Party B, Party B shall pay liquidated damages equal to 10% of the overdue amount to Party A.

3. If Party B breaches its commitments and warranties made to Party A hereunder, Party A shall have the right to terminate this contract and Party B shall pay Party A liquidated damages equivalent to 10% of the subscription price of the Target Shares.

4. If the Issuance is not approved by (1) the Board of Directors of Party A; or (2) the general meeting of shareholders of Party A; or (3) the relevant state-owned assets management institution; or (4) the CSRC and/or other competent authority (if necessary); or (5) if Party A, based on its actual situation, market conditions, provisions of relevant laws and regulations or the review opinions of the CSRC, considers that the Non-Public Issuance has been unable to achieve the Issuance purpose, and applies to the CSRC for withdrawal of the Issuance application or termination of the Issuance , it shall not constitute a breach of contract by either party, and as such, the expenses incurred by both parties for this Issuance shall be borne by both parties respectively.

VI. Supplement, modification, assignment and termination of the contract

1. Any supplement or amendment to this contract shall become effective only by a written agreement reached by both parties.

2. Neither party shall assign its rights and obligations under this contract to a third party without a written agreement reached by both parties.

3. This contract may be terminated for the following reasons:

   (1) due to major changes in objective circumstances, both parties reach a written agreement to terminate this contract before the contract is completed;

   (2) if either party is unable to continue to perform this contract due to its closure of business or the revocation of business license by the competent administrative authority due to its violation of laws and regulations;

   (3) if either party of this contract is declared bankrupt by the Chinese court;

   (4) this contract is terminated, cancelled or deemed invalid due to objections raised by the competent government authorities, securities registration or trading authorities or judicial authorities to the contents and performance of this contract, or the important principles and provisions of this contract cannot be fulfilled, which seriously affects the business purpose of Party A at the time of signing this contract;

   (5) any change in the laws, administrative regulations and normative documents on which the contract is based causes the main contents of the contract to be inconsistent with the relevant provisions, or any party is unable to perform its main obligations under the contract due to national policies or orders;

   (6) due to the occurrence of force majeure events, both parties reach a consensus and decide to terminate this contract through negotiation.

VII. Others

1. This Contract shall come into force upon being signed and affixed official seals by the legal representatives or authorised representatives of both parties, and shall come into force upon the fulfillment of all the conditions precedent set forth in article 8 of the agreement.

2. The headings of this contract and the headings of the articles of this contract are for convenience only and shall not affect the interpretation of the contents of this contract.

3. This contract is made in quadruplicate, with each party holding one copy. The remaining copies shall be kept by Party A and submitted to the relevant examination and approval authority. Each copy shall have the same legal effect.

SECTION IV FEASIBILITY ANALYSIS OF THE BOARD OF DIRECTORS ON THE USE OF PROCEEDS

I. Plan of the use of proceeds

The total amount of funds raised by the Non-Public Issuance of the Company shall not exceed RMB 250 million (including this amount). After deducting the issuance expenses, all the funds shall be used to repay the interest-bearing debts and supplement the working capital, of which the repayment of the interest-bearing debts shall not exceed RMB 140 million and the remaining funds shall supplement the working capital of the Company.

In case of any discrepancy between the timing when the funds raised by the Issuance are received and the actual repayment of the corresponding bank loans and other interest-bearing liabilities, the Company will repay with its own funds first and replace the funds raised by the Issuance after the funds are received.

II. Necessity and feasibility analysis on the use of proceeds

(I) Necessity on the use of proceeds

1. Optimising the capital structure, reducing financial risk and improving the risk-resistance capacity

As of March 31, 2021, the Company's combined asset-liability ratio was 51.43%. Compared with comparable listed companies in the same industry, the Company's asset-liability ratio has been on a relatively high trend for a long time. The Company's ability to expand its business scale is limited to a certain extent by the Company's overall capital and liability situation. After the completion of the Issuance, the Company's capital will be increased, financial expenses and asset-liability ratio will be reduced, working capital will be supplemented, capital structure will be optimised, financial position will be further improved, financial risks will be reduced, and the capacity to mitigate risks will be enhanced.

2. Supplementing working capital and laying a good foundation for the Company’s sustainable and stable development

As of March 31, 2021, the total monetary capital of the Company was RMB 913,617,400, including bank deposits of RMB 787,991,000.

The Company's daily operations, the update and maintenance of production equipment, new product research and development and marketing all need abundant funds as support. With the steady development of the business and increasing working capital requirements, this fund raising for the purposes of supplementing working capital will be conducive to the resource integration of the Company. It will also accelerate the Company’s development strategy, lay a solid foundation for the healthy, stable, and sustainable development of the Company and maximise the interests of shareholders.

3. Enhancing the financial strength of the Company to provide a guarantee for the next stage of its strategic framework

At present, the Company is in the key stage of optimising its industrial framework, and supplementing working capital is of great importance to the strategic development of the Company. After the Company's financial strength is enhanced, it will continue to promote the strategy of large-scale preparations, large-scale research and development and internationalisation, and improve its internal reform and basic management. The raised funds will help the Company expand and optimise its framework in CRO, CMO and other business areas, enhance the Company's innovation ability, promote the Company's industrial technology upgrading, and further enhance the Company's core competitiveness.

4. The subsidiary of the controlling shareholder subscribed for the shares issued, showing its confidence and support for the future business development of the Company

Hualu Holdings plans to subscribe for the shares issued by the Company through Hualu Investment, which reflects the controlling shareholders' determination to give firm support to the Listed Company and confidence in the future development of the Company, which is conducive to the stable and sustainable development of the Company. With the injection of the funds raised by the Issuance, the Company's financial situation will be improved and its capacity to resist risks will be enhanced, which is conducive to the expansion of the Company's business scale and the continuous operation of subsequent business, and is also conducive to safeguarding the interests of the Company's small and medium-sized shareholders and realising the maximisation of the interests of the Company's shareholders.

(II) Feasibility of the use of proceeds

The Company's use of proceeds through the Non-Public Issuance is in accordance with the relevant policies and laws and regulations, and is feasible. After the funds raised by the Non-Public Issuance are received, the Company's capital will be increased, financial expenses and asset-liability ratio will be reduced, working capital will be supplemented, the Company's capital structure will be optimised, the financial position will be further improved, financial risks will be reduced, the ability to enhance risk resistance will be enhanced, and the Company's strategy will be promoted to play a positive role.

III. The application for approval related to the investment of the proceeds

After deducting the issuance expenses, all the funds raised by the Non-Public Issuance will be used to repay the interest-bearing debts and supplement the working capital, of which the repayment of the interest-bearing debts will not exceed 140 million yuan, and the remaining funds will be used to supplement the working capital of the Company. It does not involve matters requiring the approval of relevant competent authorities.

SECTION V DISSCUSSION AND ANALYSIS OF THE BOARD OF DIRECTORS ON THE IMPACT OF THE ISSUANCE ON THE COMPANY

I. Impact of the Issuance on business, assets, articles of association, shareholding structure and senior management of the Company

(I) Impact of the Issuance on the Company's Business and Assets

The proceeds from the Non-Public Issuance would be used to repay interest-bearing debts and supplement working capital, including an amount up to RMB140,000,000.00 for repaying interest-bearing debts with the remaining proceeds for supplementing the working capital of the Company. Upon completion of the Non-Public Issuance, the principal business of the Company will remain unchanged and no integration of existing business and assets of the Company is involved. The Non-Public Issuance meets the requirements of its long-term development strategy, and the proceeds thereof will increase the net assets and reduce the gearing ratio of the Company. The Issuance is conductive to optimising the financial structure, advancing the business development and improving the risk-resistance capacity of the Company.

(II) Changes to the Articles of Association after the Issuance

The share capital would increase accordingly upon completion of the Non-Public Issuance. The Company will make amendments to relevant articles of the Articles of association in connection with share capital structure, registered capital etc. pursuant to related regulations and the actual issuance situations and comply with the procedures for the change in industrial and commercial registration.

(III) Impact of the Issuance on capital structure

The target subscriber of the Non-Public Issuance is Hualu Investment. As of the announcement date of the proposal, Hualu Holdings, as the controlling shareholder of the Company, directly holds 204,864,092 shares of the Company, i.e. 32.6% of the total shares of the Company. Hualu Investment and Well Bring, subsidiaries of Hualu Holdings, hold 4,143,168 shares and 20,827,800 shares in the Company respectively, i.e. 0.66% and 3.32% of the total shares of the Company respectively, with Shandong Provincial State-owned Assets Supervision and Administration Commission as the actual controller of the Company. Hualu Investment will subscribe shares under the Non-Public Issuance fully in cash and the proportion of shares held by the controlling shareholder would increase upon completion of the Issuance and Shandong Provincial State-owned Assets Supervision and Administration Commission will remain as the actual controller of the Company. Therefore, the issuance will not result in change in actual control of the Company.

(IV) Impact of the issuance on senior management structure

The Listed Company would not adjust its senior management due to the issuance, and thus the senior management structure will not change due to the Non-Public Issuance.

(V) Changes to business structure of the Company after completion of the issuance

The proceeds from the Non-Public Issuance after deducting issuance expenditure, is proposed to be fully used to repay bank loans and supplement working capital, including an amount up to RMB140,000,000.00 for repaying interest-bearing debts with the remaining funds for supplementing working capital of the Company. The business structure of the Company will not change due to the Issuance.

II. Changes in financial position, profitability and cash flows of the Company after completion of the Issuance

(I) Impact on financial condition of the Company

Upon completion of the Non-Public Issuance, the Company's net assets will increase accordingly with total liabilities decreasing accordingly. The capital structure of the Company will be optimised, which is conductive to facilitating the Company's capital strength and capacity to resist risks.

(II) Impact on profitability of the Company

The proceeds from the Non-Public Issuance, after repaying bank loans, would reduce the financial expenses of the Company, improve the overall strength of the Company and thus further enhance the profitability of the Company.

(III) Impact of cash flows of the Company

Upon completion of the Non-Public Issuance, the cash inflow generated from financing activities of the Company will increase significantly since the target subscriber Hualu Investment subscribes shares in cash. Meanwhile, the proceeds would be fully used to repay bank loans and supplement working capital, which is conductive to reducing financing risks and costs of the Company and lowering cash outflow arising from financing activities. Adequate liquidity would also provide the Company with strong financial support, and help improve the Company's cash flow generated from future operation activities continuously.

III. Business relationship, management relationship, connected transactions and competition between the Company and the controlling shareholder, actual controller and its affiliates

There will be no changes in the business relationship, management relationship, connected transactions and competition between the Company and the controlling shareholder, actual controller and its affiliates arising from the Issuance. Hualu Investment, a wholly-owned subsidiary of the controlling shareholder Hualu Holdings, participates in the subscription for shares under the Non-Public Issuance, which constitutes a connected transaction. Other than that, no other connected transaction or competition between the Company and the controlling shareholder, actual controller and its affiliates will arise from the Issuance.

IV. Upon completion of the Issuance, whether there will be any embezzlement of funds and assets by the controlling shareholder and its affiliates, or whether any guarantee will be provided by the Company for the controlling shareholder and its affiliates

As of the announcement date of the proposal, there was no non-business embezzlement of funds and assets of the Company by the controlling shareholder or its affiliates, nor will there be any guarantee provided by the Company for its controlling shareholder or its affiliates. Upon completion of the Issuance, there will be no embezzlement of funds and assets of the Company by its controlling shareholder and its affiliates, or guarantee provided by the Company for its controlling shareholder or its affiliates.

V. Whether the debt structure of the Company is reasonable, whether the Company will significantly increase its liabilities (including contingent liabilities) as a result of

the Issuance or has a gearing ratio that is too low or whether there are any unreasonable financing costs

As of 31 March, 2021, the gearing ratio of the Company on a consolidated basis was 51.43%. Upon completion of the Issuance, the gearing ratio of the Company will reduce to a reasonable level and the debt structure of the Company will be more robust, which will further enhance the Company's capacity to resist risks. The Company will not significantly increase its liabilities (including contingent liabilities) or nor have a gearing ratio that is too low as a result of the Issuance, nor will there be any unreasonable financing costs.

VI. Risk factors concerning the issuance

In assessing the Non-Public Issuance of the Company, investors should, in addition to other materials provided by the proposal, take into consideration the below risks:

(I) Industry policy risk

Considering that the pharmaceutical industry concerns people's life, health and safety and that pharmaceutical enterprises have long been under strict supervision, the development of the industry has been significantly affected by industry policy. With the successive introduction of major industry policies such as the "two-vote system", consistency evaluation, volume-based purchasing policy etc., the reform of China's medical and health care system is being carried out step-by step. The introduction of relevant reform measures and the continuous improvement of policies, while advancing the orderly and healthy development of China's pharmaceutical industry, will also exert a profound impact on the operation mode of the industry. In this case, if the Company fails to adjust its strategies promptly and adapt to the policy changes, the operation of the Company would suffer some unfavourable impact to some extent.

(II) Research and development risks for new drugs

New drug research and development takes a long period, and needs intensive input. High risk exists in the process throughout pre-clinical research, clinical trial, new-drug certificate application and registration for approval until production. Problems arising from any stage of the industrialisation process of new drugs might cause failure of research and development. Besides, even after the commercialisation of products, there is a possibility that market promotion and product income may fail to reach expected results, which may bring a negative influence on the operation of the Company.

(III) International risks

As a top 5 domestic pharmaceutical export enterprise, the Company has established long-term strategic cooperation with more than 200 prestigious multinational companies such as Coke, Mitsubishi Pharma, GlaxoSmithKline, Bayer etc. However, in the process of implementing its international development strategy, the Company may still encounter issues such as insufficient familiarity with the overseas market environment, demand differences between overseas customers and domestic customers, trade protection enforced in some countries etc. If the Company fails to address relevant issues promptly and effectively, the operations of the Company would suffer unfavourable impact to some extent.

(IV) Risks of dilution of current returns

The proceeds from the Non-Public Issuance, once received, would increase the total share capital and net assets of the Company accordingly. Nonetheless, in the short-term, the extent of the increase in the Company's net profit might be lower than the extent of increase in its share capital and net assets, which will lead to risks of a certain decrease in financial indicators such as earnings per share and weighted average net return on equity and dilution of the immediate shareholder returns after the Issuance.

(V) Risk of approval

Matters regarding the Issuance, after being reviewed and approved by the Company's Board, shall be subject to the approval of the competent state-owned management authority, the granting of the whitewash waiver by the SFC, the review and consideration by the general meeting of shareholders and the class shareholders' meeting of the Company, and the approval of the CSRC. There are uncertainties on the obtaining of the relevant approval or verification as well as the timing of obtaining final approval and verification. All investors are advised to pay attention to the approval risks.

(VI) Risk of stock price volatility

The Non-Public Issuance would have significant impact on the production, operation and financial conditions of the Company, and such changes to the Company's basic conditions might affect its stock price. Moreover, national macroeconomic conditions, any adjustment of financial policy, any supply-demand change to stock market and investors' psychological expectations would all affect the stock price, with certain risks of stock price market volatility.

(VII) Risk arising from COVID-19

The outbreak of COVID-19 has had a considerable impact on the domestic and international economy since the beginning of 2020. Benefiting from the situation that the epidemic has been essentially under control in China, the Company resumed production quite smoothly. However, if the domestic epidemic situation reoccurs and the foreign epidemic condition cannot be controlled effectively within a short period, it would adversely affect many operation phases of the Company to some extent such as raw material procurement, production organisation, sale development, logistics and distribution etc., which may have negative impact on the steady operation and fast development of the Company.

SECTION VI PROFIT DISTRIBUTION POLICY AND DIVIDENDS DISTRIBUTION OF THE COMPANY

I. Profit distribution policy of the Company and its implementation

Provisions of the profit distribution policy in the Articles of Association are set out below:

"Clause 193 The Company adopts a positive profit distribution policy that should remain continuous and steady. The Company shall appreciate the reasonable return on investment for investors and its sustainable development when implementing its profit distribution policy.

(I) The board of directors and the general meeting of the Company may consider the opinions of the independent directors and public investors, especially minority shareholders, by means of telephone, fax, email etc. in the decision-making and demonstration of the profit distribution policy.

(II) The Company may distribute dividends in cash, in shares, in a combination of both cash and shares or other methods allowed by laws and regulations, among which the Company preferentially adopts cash dividends for profit distribution. The board of directors of the Company may propose interim profit distribution to the Company in accordance with profit status and capital requirements of the Company. The interval between 2 dividends shall not be less than 6 months unless demonstrated and agreed by the board of directors and independent opinions given by the independent directors and passed via resolutions by the board of supervisors.

(III) Cash dividends and all other distributions of domestic shares shall be distributed and paid in RMB. Cash dividends and all other distributions of overseas-listed foreign shares listed in Hong Kong shall be denominated and published in RMB and paid in Hong Kong dollars in accordance with the relevant foreign exchange regulations of China.

(IV) The board of directors of the Company should propose a profit distribution policy reasonably based on the comprehensive consideration of profit status, capital requirements and shareholder returns of the Company after the end of each fiscal year. The board of directors should, in the process of demonstrating a profit distribution proposal, fully discuss with the independent directors and supervisors and fully listen to the opinions of minority shareholders through various channels to carefully study and demonstrate issues such as the time, conditions and minimum percentage, adjustment preconditions of cash dividends of the Company and the decision-making procedures.

The profit distribution proposal, in the process of deliberation by the board of directors, board of supervisor of the Company, shall be subject to approval by more than half of all directors, more than half of the independent directors and more than half of all supervisors, and the independent directors should issue explicit opinions. The profit distribution proposal reviewed and approved by the board of directors should be submitted to the general meeting for deliberation. The proposal to pay stock dividends or convert surplus reserve into additional share capital, if reviewed and approved by the general meeting, should be subject to approval by more than two-thirds of the voting rights held by shareholders attending the general meeting.

(V) If the net profits realised by the Company in the year, after making up for the loss, fully allocating its profits to the statutory surplus reserve and discretionary surplus reserve, still produce a positive profit available for distribution and the auditor has issued a standard unqualified audit report for the annual financial statements of the Company (interim cash dividends may be excluded from the audit), in accordance with relevant laws and regulations as Company Law and stipulations in the Articles of Association, the Company should propose a cash dividends distribution policy, except for exceptional circumstances such as the occurrence of a significant investment scheme or major cash expenditures etc. Where the Company cannot carry out cash dividends distribution due to exceptional reasons after satisfaction with the afore-mentioned requirements for cash dividends distribution, the board of directors should give special instructions on issues as specific reasons for not implementing cash dividends distribution, usage of retained funds not distributed as dividends which should be submitted to the general meeting for review after the independent directors give opinions.

(VI) The Board shall take various factors into consideration, including its industry features, development stages, business model and profitability level as well as whether it has any significant capital expenditure arrangements, to differentiate the following circumstances and propose a differentiated policy for cash dividend distribution according to the procedures stipulated in the Articles of Association:

1. Where the Company is in a developed stage with no significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 80% of the total profit distribution;

2. Where the Company is in a developed stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 40% of the total profit distribution;

3. Where the Company is in a developing stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 20% of the total profit distribution;

4. In the case that it is difficult to distinguish the Company's stage of development but the Company has significant capital expenditure arrangements, such matter may be dealt with pursuant to the preceding provisions.

(VII) Based on the precondition that the normal business operation and long-term development of the Company could be ensured, if the Company has no major investment plans or major cash disbursements etc., the Company shall, in principle, carry out cash dividends distribution once a year. The profits distributed in cash by the Company shall not be less than 10% of the profits realised in the year and available for distribution, and if the above percentage could not be fulfilled due to exceptional reasons, the Board should give special instructions to the general meeting.

(VIII) Where the Company is in good operation status and the Board considers that the stock price of the Company is inconsistent with the share capital size of the Company and that payment of stock dividends is beneficial to the overall interests of all shareholders of the Company, the Company may put forward a stock dividends distribution proposal under the premise of the above cash dividends being satisfied.

(IX) The Company, if it really needs to adjust its profit distribution policy in accordance with the production and operation status, investment planning and long-term development needs or there have been changes in external business environment, should fully consider the protection of minority shareholders and the adjusted profit distribution policy should not be in breach of relevant regulations of securities regulators. The proposal on the adjustment of the profit distribution policy made by the Company is required to obtain the opinions of the independent directors and the board of supervisors and then be submitted to the general meeting after deliberation by the board of directors. And the proposal of the general meeting for deliberation on adjusted profit distribution policy should be approved by more than two-thirds of the voting rights held by shareholders attending the general meeting.

(X) After the shareholders' meeting of the Company makes a decision on the profit distribution plan, the board of directors shall complete the distribution of dividends (or shares) within two months from the date of the general meeting."

II. Dividends distribution and usage of undistributed profits of the Company in the recent three years

(I) The Company's dividends for the recent three years

Unit: RMB

Year	**Amount of cash dividends**	**Net profit attributable to shareholders of the parent company in the consolidated financial statements**	**Percentage of cash dividends amount in current net profit attributable to shareholders of parent company (%)**
2020	94,105,117.05	324,859,557.55	28.97
2019	74,623,133.64	299,966,265.71	24.88
2018	62,185,944.70	255,314,454.86	24.36
Total	**230,914,195.39**	**880,140,278.12**	**26.24**

(II) Arrangement for undistributed profits usage

The undistributed profits of the Company for the recent three years is mainly used for working capital required for the production and operations and capital expenditures necessary for the business development of the Company etc. in order to support the long-term and sustainable development of the Company.

III. Dividends distribution plan of the Company for future the three years

In order to set up and improve the scientific, sustained and stable dividend distribution policy and supervision mechanism of the Company, actively offer returns to investors, guide investors to establish concepts of long-term investment and reasonable investment, the Board of the Directors of the Company has formulated a shareholders' return plan for the next three years (2021-2023) (hereinafter referred to as the "**Plan**") by taking into account factors such as the profitability, operation and development plan, shareholder returns, social capital costs and external financing environment of the Company etc. and in accordance with laws, administrative rules and standardised documents such as the Company Law, the *Announcement on Further Implementation of Relevant Matters Concerning Cash Dividend Distribution of Listed Companies* issued by the CSRC, *Guidelines No. 3 on the Supervision and Administration of Listed Companies – Distribution of Cash Dividends of Listed Companies* etc. and the relevant provisions of the Articles of association, with the specific contents of the Plan as follows:

"Clause 1 Factors considered by the Plan

The Plan should focus on the long-term and sustainable development of the Company, comprehensively analyse factors such as the actual conditions of the Company's operations and development, shareholders' demand and intention, social capital costs, external financing environment etc., fully take into account aspects such as the Company's current and future profitability scale, cash flows, development stage, funding requirements for project investments, bank credit and debt financing environment etc., and make reasonable arrangements on the basis of balancing the reasonable returns on investment of shareholders and the long-term development of the Company so as to ensure continuity and stability of the profit distribution policy.

Clause 2 Principles for the formation of the Plan

The Plan is formulated in accordance with laws, administrative rules, standardised documents and provisions as well as the Articles of association. The Company implements a continuous and stable profit distribution policy and fully considers the opinions of shareholders especially minority shareholders and independent directors. The Company's profit distribution emphasises reasonable investment returns to investors in collaboration with the sustainable development of the Company. Subject to the satisfaction of the requirements of its normal operations and capital demands required by sustainable development, the Company preferentially selects cash dividends, develops a cash dividends system, and maintains consistency, reasonableness and stability of its cash dividend policy.

Clause 3 Specific plans for shareholders' return of the Company in the next three years (2021-2023)

1. Method of profit distribution

   The Company may distribute dividends in cash, in shares, in a combination of both cash and shares, or other methods allowed by laws and regulations. Among those methods of profit distribution, the Company preferentially adopts cash dividends for profit distribution. The Board of Directors may propose to the Company for an interim profit distribution in accordance with the profitability status and capital requirements of the Company. The interval between two dividends shall not be less than 6 months unless demonstrated and agreed by the board of directors and independent opinions given by the independent directors and passed via resolutions by the board of supervisors.

2. Conditions and percentage of profit distribution

   (1) Conditions, percentage and interval of cash dividends

   If the net profits realised by the Company in the year, after making up for any loss, fully allocating its profits to the statutory surplus reserve and discretionary surplus reserve, still produce a positive profit available for distribution and the auditor has issued a standard unqualified audit report for the annual financial statements of the Company (interim cash dividends may be excluded from the audit), in accordance with relevant laws and administrative regulations such as the Company Law and stipulations in the Articles of association, the Company should propose a cash dividends distribution policy, except for exceptional circumstances such as the occurrence of a significant investment scheme or major cash expenditures etc.

   Based on the precondition that the normal business operations and long-term development of the Company could be ensured, if the Company has no major investment plans or major cash disbursements etc., the Company shall, in principle, carry out a cash dividends distribution once a year. The profits distributed in cash by the Company shall not be less than 10% of the profits realised in the year and available for distribution, and if the above percentage could not be fulfilled due to exceptional reasons, the Board should give a special explanation to the general meeting.

(2) Conditions for stock dividends distribution

Where the Company is in good operation status and the Board considers that the stock price of the Company is inconsistent with the share capital size of the Company and that payment of stock dividends is beneficial to the overall interests of all shareholders of the Company, the Company may put forward a stock dividends distribution proposal under the premise of the above cash dividends being satisfied.

(3) Differentiated policy for cash dividend distribution

During the future years, the Board shall take various factors into consideration, including its industry features, development stages, business model and profitability level as well as whether it has any significant capital expenditure arrangements, to differentiate the following circumstances and propose a differentiated policy for cash dividend distribution according to the procedures stipulated in the Articles of association:

1) Where the Company is in a developed stage with no significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 80% of the total profit distribution;

2) Where the Company is in a developed stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 40% of the total profit distribution;

3) Where the Company is in a developing stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 20% of the total profit distribution.

4) In the case that it is difficult to distinguish the Company's stage of development but the Company has significant capital expenditure arrangements, such matter may be dealt with pursuant to the preceding provisions.

(4) Review Procedures for Profit Distribution Plan

After the end of each financial year, the Company's Board of Directors should reasonably put forward a profit distribution plan based on the Company's profitability, capital needs and shareholder returns. During the demonstration process of the profit distribution plan, the Board of Directors must fully discuss with the independent directors and supervisors and listen to the opinions of minority shareholders through different channels. The Board of Directors also need to carefully study and demonstrate the timing, conditions and minimum ratio of the Company's cash dividends, adjustment conditions and the requirements for the decision-making procedures.

When reviewing the profit distribution plan, the Board of Directors and the board of supervisors shall obtain the consent of more than half of all directors, more than half of independent directors, and more than half of all supervisors respectively, and independent directors shall express clear opinions. The profit distribution plan approved by the Board of Directors shall be submitted to the Company's general meeting of shareholders for deliberation. If the general meeting of shareholders considers the distribution of stock dividends or the conversion of public reserve funds into share capital, such distribution or conversion must be approved by more than two-thirds of the voting rights held by shareholders attending the general meeting.

When the Company meets the conditions for cash dividends while the Company does not make cash dividends due to special reasons, the Board of Directors should make special explanations on the specific reasons for not making cash dividends, the purpose of retaining funds not used for dividends, etc., and submit them to the general meeting of shareholders for review after the independent directors have expressed their opinions.

(5) Adjustment of Profit Distribution Policy

In the process of decision-making and demonstration of the profit distribution policy, the Board of Directors and the general meeting of shareholders should take into account the opinions of independent directors and public investors, especially minority shareholders by telephone, fax, email and other methods.

If the Company really needs to adjust its profit distribution policy based on the Company’s production and operation condition, investment planning, long-term development needs, or changes in the external operating environment, it shall fully consider protecting the rights and interests of minority shareholders. The adjusted profit distribution policy shall not violate relevant regulations of the securities regulatory authority. The Company shall seek opinions from the independent directors and the board of supervisors in advance for making the proposal to adjust the profit distribution policy and shall submit the proposal to the general meeting of shareholders after review by the Board of Directors. Proposals for deliberating and adjusting the profit distribution policy at the general meeting of shareholders must be passed by more than two-thirds of the voting rights held by the shareholders attending the general meeting.

Clause 4 Formulation and Adjustment of Shareholder Return Plans

1. The Company formulates and adjusts shareholder return plans in accordance with laws, administrative regulations, regulatory documents and the requirements of regulatory authorities, while taking into consideration of the actual circumstances of the Company and the opinions of shareholders (especially minority shareholders).

2. On the basis of fully considering the Company's profit scale, cash flow condition, development stage and current capital needs, and combining the opinions of shareholders, especially minority shareholders, the Board of Directors formulates the shareholder return plan, which will be commented independently by the independent directors and submitted to the general meeting for approval.

3. If the Company is in actual need of adjusting its established shareholder return plan due to a change in the external business environment or the Company's own business needs, the adjusted plan shall be reviewed and approved by the Board of Directors and the independent directors, and then submitted to the general meeting of shareholders for approval by a special resolution. "

SECTION VII DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES

I. Analysis on the impact of risks arising from dilution of current returns by the Non-Public Issuance on the key financial indicators

After the Issuance is completed, the Company's net assets will increase. In the short term, when the raised funds cannot be fully utilised, the Company's earnings per share and return on net assets may be affected to a certain extent; in the medium and long term, the increase in the amount of capital brought about by the proceeds from the Non-Public Issuance will effectively promote the expansion of the Company's business scale and further enhance the Company's business scale and profitability. The Company will actively take various measures to improve the efficiency of the use of net assets and capital in order to obtain a good rate of return on net assets.

(I) Major assumptions

1. Considering that the review and issuance of the Non-Public Issuance will take a certain amount of time, it is assumed that the Non-Public Issuance will be completed in October 2021, which is only an estimated date. The actual date of completion is subject to the approval of the CSRC of the Issuance.

2. Without taking into account the issuance cost, and assuming that the final number of shares to be issued in the Non-Public Issuance is the upper limit of the number of shares (i.e. 36,284,470) to be issued, the final number of shares to be issued is subject to the number of shares approved by the CSRC. It is also assumed that the total amount of funds raised in the Non-Public Issuance is the upper limit of the total amount of funds raised in the Non-Public Issuance, RMB 250 million.

3. The net profit attributable to the shareholders of the parent company in 2020 was RMB 324,859,600, and the net profit attributable to the owner of the parent company after deducting non-recurring gains and losses was RMB 290,790,000. It is assumed that the net profit attributable to the owner of the parent company after deducting non-recurring gains and losses in 2021 can be classified into the following three situations:

   (1) increasing by 10% compared with 2020;

   (2) remaining at the same level as 2020;

   (3) decreasing by 10% compared with 2020.

4. The impact on the Company's production and operations and financial condition (such as financial expenses and financial income) after the funds raised by the Issuance are not taken into consideration.

5. It is assumed that there are no significant adverse changes in the macroeconomic environment and the industry conditions in which the Company operates.

6. When predicting the net assets of the Company after the Issuance, the impact of other factors on the net assets of the Company is not considered except for the funds raised and the net profit after the Issuance.

7. When predicting the total issued shares of the Company, the basis relied on was the 621,859,447 shares of the total issued shares as at 31 December 2020; 5,508,000 new A shares were issued in January 2021 in accordance with the

2018 Share Option Incentive Scheme following the exercise of the share options in the first exercise period. It is assumed that apart from the aforementioned matters and the Non-Public Issuance, no other events which may cause changes in the share capital are considered.

8. The above assumptions are intended only to measure the impact of the current Non-Public Issuance's diluted immediate returns on the Company's key financial indicators, and do not represent the Company's judgment of business conditions and trends in 2021, nor do they constitute a profit forecast. An investor shall not make investment decisions based on this, and the Company shall not be liable for compensation if an investor makes investment decisions based on this and incurs losses.

(II) Impact on key financial indicators

Based on the aforesaid assumptions, the impact of the Non-Public Issuance on key financial indicators of the Company as calculated by the Company is as follows:

Item	**2020/31 December 2020**	**2021/31 December 2021**	
		Before the Issuance	**After the Issuance**
Total share capital (share)	621,859,447	627,367,447	663,651,917
Scenario 1: net profit for 2021 remains at the same level			
Net profit attributable to the shareholders of listed Company in the current period (in RMB ten thousand)	32,485.96	32,485.96	32,485.96
Net profit attributable to the shareholders of listed Company after deduction of non-recurring items (in RMB ten thousand)	29,079.00	29,079.00	29,079.00
Basic earnings per share (RMB/share)	0.52	0.52	0.51
Basic earnings per share after deduction of non-recurring items (RMB/share)	0.47	0.46	0.46
Diluted basic earnings per share (RMB/share)	0.52	0.52	0.51
Diluted basic earnings per share after deduction of non-recurring items (RMB/share)	0.47	0.46	0.46
Scenario 2：net profit for 2021 increases by 10%			
Net profit attributable to the shareholders of listed Company in the current period (in RMB ten	32,485.96	35,734.55	35,734.55

thousand)			
Net profit attributable to the shareholders of listed Company after deduction of non-recurring items (in RMB ten thousand)	29,079.00	31,986.90	31,986.90
Basic earnings per share (RMB/share)	0.52	0.57	0.56
Basic earnings per share after deduction of non-recurring items (RMB/share)	0.47	0.51	0.51
Diluted basic earnings per share (RMB/share)	0.52	0.57	0.56
Diluted basic earnings per share after deduction of non-recurring items (RMB/share)	0.47	0.51	0.51
Scenario 3: net profit for 2021 decreases by 10%			
Net profit attributable to the shareholders of listed Company in the current period (in RMB ten thousand)	32,485.96	29,237.36	29,237.36
Net profit attributable to the shareholders of listed Company after deduction of non-recurring items (in RMB ten thousand)	29,079.00	26,171.10	26,171.10
Basic earnings per share (RMB/share)	0.52	0.47	0.46
Basic earnings per share after deduction of non-recurring items (RMB/share)	0.47	0.42	0.41
Diluted basic earnings per share (RMB/share)	0.52	0.47	0.46
Diluted basic earnings per share after deduction of non-recurring items (RMB/share)	0.47	0.42	0.41

Notes on the calculation are as follows:

1. The Company's hypothetical analysis of the annual net profit in 2021 does not constitute the Company's profit forecast, and investors shall not make investment decisions based on it. If investors make investment decisions based on it and incur losses, the Company shall not be liable for compensation.

2. The number of non-public issued shares and the completion time of the Issuance are only estimates, and shall be subject to the final number of shares approved by the regulatory authorities and the actual time of completion for the Issuance.

3. When forecasting the main financial indicators after the Issuance of the Company, the impact of other factors on the main financial indicators are not considered except for the total amount of funds to be raised and the net profit.

   The Company reminds investors that the above analysis does not constitute the Company's profit forecast. The Issuance still needs to be approved by the regulatory authorities, and there are uncertainties whether it will be approved, when it will be approved, and when the issuance will be completed. Investors are hereby reminded to pay attention to the impact of the Issuance on immediate returns.

I. The relationship between the fundraising project and the Company's existing business and the Company's personnel, technology, and market reserves for fundraising projects

All the funds raised by the Company in cash will be used to repay interest-bearing liabilities and supplement working capital after deducting the issuance costs, which can effectively improve the Company's financial status and provide good support for the Company's existing business. This fundraising project does not involve specific construction projects nor the Company's personnel, technology, and market reserves for fundraising projects.

II. Specific measures taken by the Company to remedy returns

In order to protect the interests of investors, the Company will take a variety of measures to ensure the effective use of the raised funds, effectively prevent the risk of immediate returns being diluted, and improve future returns. Specific measures include the following:

(I) Strengthening the management of proceeds to effectively protect the interests of investors

In accordance with the *Company Law, Securities Law, Administrative Measures for the Issuance of Securities by Listed Companies, Regulatory Guidelines for Listed Companies No. 2 – Regulatory Requirements for the Management and Use of Funds Raised by Listed Companies, Rules Governing the Listing of Shares on Shenzhen Stock Exchange, Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Listed Companies on the Main Board* and other relevant laws and regulations, along with Articles of association, the Company has formulated the *Administrative Measures for the Use of Proceeds* to regulate the storage, use, change of purpose, management and supervision of the special accounts for proceeds. In order to ensure the Company's standardised and effective use of proceeds, after the funds raised in the Issuance are received, the Board of Directors will continue to supervise the deposit and use of proceeds, conduct regular internal audits on proceeds, and cooperate with supervisory banks and sponsoring institutions in their inspections on the use of raised funds to ensure the reasonable and standardised use of raised funds and reasonably prevent the risks arising from the use of raised funds.

(II) Strengthening the level of corporate governance to ensure the development of the Company

The Company will strictly abide by the *Company Law*, *Securities Law*, *Code of Corporate Governance of Listed Companies* and other laws and regulations and regulatory documents, and continuously improve corporate governance to ensure that shareholders can fully exercise their rights and ensure that the Board of Directors can exercise their powers, make scientific, prompt and prudent decisions in accordance with laws, regulations and the Articles of association. The Company will ensure that the independent directors can perform their duties seriously, safeguard the overall interests of the Company, especially the legitimate rights and interests of minority shareholders, and ensure that the board of supervisors can independently and effectively exercise the power to supervise and inspect the directors, senior management and the company's finances, and provide institutional guarantees for the company's development.

(III) Strictly implementing the dividend policy to ensure the return of the Company's shareholders' interests

In accordance with the *Notice on Further Implementation of Matters in Relation to Cash Dividend of Listed Companies*, *Regulatory Guidelines for Listed Companies No. 3 – Cash Dividend of Listed Companies* and *Guidelines for Articles of Association of Listed Companies*, on the basis of fully considering the return on investment to shareholders and taking into account the Company's growth and development, the Company has formulated the *Shareholder Return Plan for the Next Three Years (2021-2023)* based on its actual circumstances, further clarifying and improving the Company's profit distribution principles and methods; profit distribution, especially the specific conditions and proportions of cash dividends; and the distribution conditions of stock dividends, improving the Company's profit distribution decision-making procedures and mechanisms, and the decision-making procedures for adjusting profit distribution policy.

In the future, the Company will continue to strictly implement the Company's dividend policy, strengthen the supervision and management mechanism of investor returns, and ensure that the interests of the Company's shareholders, especially that of minority shareholders are protected, and strive to improve the level of shareholder returns.

(IV) Strengthening technology research and development and promoting innovation and development

The Company will fully implement the "Greater Research and Development Plan", further increase research and development investment and accelerate the reform of the scientific research system and mechanism, further improve the research and development system and research and development platform construction, and further enrich the pain control, cardiovascular and cerebrovascular, and anti-tumor categories and other new products in the research and development pipeline. The Company will accelerate the application of new preparation technologies, further upgrade high-end drug delivery systems, and achieve breakthroughs in antibody drugs and major innovative drugs.

The Company will efficiently integrate existing resources, accelerate the work on subsequent products, especially the consistency evaluation of key products, and strive to obtain consistency evaluation approval for four products such as amoxicillin capsules.

III. Undertakings of directors and senior management in relation to measures to compensate for returns

In order to implement regulations including the *Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets*, *Opinions of the State Council on Further Promoting the Sound Development of Capital Markets* and CSRC's *Guiding Opinions on Matters concerning the Dilution of Immediate Return in Initial Public Offering, Refinancing and Material Asset Restructuring*, and to effectively protect the legitimate interests of investors, especially those of minority investors, all directors and senior management of the Company makes the following undertakings:

1. "I undertake that I will not direct benefits to other units or individuals at nil consideration or on unfair terms, and will not harm the Company's interests in any other manner;

2. I undertake that I will act to control work-related spending;

3. I undertake that I will not utilise the assets of the Company for any investment or consumption irrelevant to the performance of my duties;

4. I undertake that the remuneration system formulated by the Board or the remuneration committee will correspond with the implementation of the Company's measures to compensate for diluted current returns;

5. in the event of the implementation of any share option incentive scheme by the Company in the future, I undertake that the conditions for exercising options under such scheme will correspond with the implementation of the Company's measures to compensate for diluted returns;

6. from the date of the issue of this undertaking to the completion of the Company's Non-Public Issuance of A Shares, if the state and securities regulatory authorities issue other new regulatory requirements on measures for listed companies to compensate for diluted current returns, and this undertaking cannot meet the requirements of the state and securities regulations, I promise to issue an undertaking in accordance with the latest regulations of the state and securities regulatory authorities; and

7. as one of the responsible parties in relation to the measures to compensate for returns, if I violate the undertaking or refuse to fulfill this undertaking, I agree that the state or securities regulatory authorities will impose relevant penalties or take relevant regulatory measures in accordance with the relevant regulations and rules formulated or issued by it."

IV. Undertakings of the controlling shareholder of the Company in relation to measures to compensate for returns

In order to implement regulations including the *Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets, Opinions of the State Council on Further Promoting the Sound Development of Capital Markets* and CSRC's *Guiding Opinions on Matters concerning the Dilution of Immediate Return in Initial Public Offering, Refinancing and Material Asset Restructuring*, and to effectively protect the legitimate interests of investors, especially those of minority investors, the controlling shareholder of the Company makes the following undertakings:

1. “we undertake that we will not act beyond our powers to interfere with the Company’s operating and management activities or infringe upon the Company’s interests;

2. from the date of the issue of this undertaking to the completion of the Company’s Non-Public Issuance of A Shares, if the state and securities regulatory authorities issue other new regulatory requirements on measures for listed companies to compensate for diluted current returns, and this undertaking cannot meet the requirements of the state and securities regulations, we promise to issue an undertaking in accordance with the latest regulations of the state and securities regulatory authorities; and

3. we undertake to take the relevant measures to compensate for the diluted current returns formulated by the Company and fulfill this undertaking. If any loss is caused to the Company or investors due to the breach of this undertaking or the refusal to fulfill this undertaking, the Company is willing to assume the corresponding liability and compensate the losses in accordance with the law.”

SECTION VIII OTHER DISCLOSURES

There is no other necessary disclosure in the Non-Public Issuance.

（No text on this page. This is the sealed page of Shandong Xinhua Pharmaceutical Company Limited's 2021 Proposal for Non-public Issuance of A Shares）

Board of Directors

Shandong Xinhua Pharmaceutical Company Limited

15 April 2021