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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shandong Xinhua Pharmaceutical Company Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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: 0719)

**EXTENSION OF THE EFFECTIVE PERIOD OF THE SHAREHOLDERS'  
RESOLUTIONS TO APPROVE THE PROPOSED PLACING  
AND  
EXTENSION OF THE EFFECTIVE PERIOD OF THE AUTHORISATION  
GRANTED TO THE BOARD TO HANDLE MATTERS RELATING TO  
THE PROPOSED PLACING**

**Independent financial adviser to  
the Independent Board Committee and the Disinterested Shareholders**

**ALTUS CAPITAL LIMITED**

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Capitalised terms used on this cover page have the same meanings of those defined in this circular.

A letter from the Board is set out on pages 1 to 26 in this circular. A letter from the Independent Board Committee containing its recommendations to the Disinterested Shareholders is set out on pages 27 to 28 of this circular. A letter from Altus Capital containing its advice in respect of the Extension Resolutions to the Independent Board Committee and the Disinterested Shareholders is set out on pages 29 to 38 of this circular.

A notice convening the EGM and the H Share Class Meeting to be held at the Company's conference room at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC at 2:00 pm and 4:00 pm respectively on Wednesday, 28 December 2016 together with two forms of proxy (one for the EGM and one for the H Share Class Meeting) and two reply slips (one for the EGM and one for the H Share Class Meeting) were published on the websites of the SEHK (<http://www.hkexnews.hk>) and the Company (<http://www.thebankoball.com>) on 10 November 2016 and despatched on 11 November 2016.

Whether or not you are able to attend these meetings, we encourage you to complete and return the two forms of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours prior to the commencement of the EGM and the H Share Class Meeting to the office of the Secretary to the Board at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC.

Completion and return of the two forms of proxy will not preclude you from attending and voting at these meetings should you so wish.

12 December 2016

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## DEFINITIONS

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*In this circular, unless the context requires otherwise, the following expressions have the following meanings:*

“2015 Profit Distribution Plan”	the plan on profit distribution and payment of a dividend of RMB0.02 (tax included) per Share to all Shareholders by the Company for year 2015, as considered and approved at the annual general meeting of the Company on 29 June 2016
“A Share(s)”	Renminbi-denominated domestic Share(s) of the Company, with a nominal value of RMB1.00 each which is listed on the SZSE
“A Share Class Meeting”	the meeting of the holders of A Shares in 2016 to be held at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC on Wednesday, 28 December 2016 for the purpose of considering and, if thought fit, passing the Extension Resolutions
“A Share Shareholder(s)”	holder(s) of A Share(s)
“Altus Capital”	Altus Capital Limited, a licensed corporation carrying on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO, acting as the independent financial adviser appointed to advise the Independent Board Committee and the Disinterested Shareholders in relation to the Extension Resolutions
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BXC Assets Management Limited”	北京信誠達融資產管理有限公司 (Beijing Xin Cheng Da Rong Assets Management Limited*)
“BXC PI Fund No. 1”	北京信誠達融資產管理有限公司私募投資1號基金 (BXC Assets Management Limited Private Investment Fund No. 1*), a fund established and managed by BXC Assets Management Limited and a Subscriber for a maximum of 21,405,738 A Shares (subject to the Price Adjustment, the Share Adjustment and further adjustments at the request of the CSRC) under the Proposed Placing and was defined as “BXC Fund” in the circular of the Company dated 14 December 2015

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## DEFINITIONS

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“CBR Investment Fund Management Limited”	重慶寶潤股權投資基金管理有限公司 (Chongqing Bao Run Equity Investment Fund Management Company Limited*)
“CBR PI Fund No. 1”	重慶寶潤股權投資基金管理有限公司私募1號投資基金 (CBR Investment Fund Management Limited No. 1 Private Investment Fund*), a fund established and managed by CBR Investment Fund Management Limited and a Subscriber for a maximum of 20,579,573 A Shares (subject to the Price Adjustment, the Share Adjustment and further adjustments at the request of the CSRC) under the Proposed Placing and was defined as “CBR Fund” in the circular of the Company dated 14 December 2015
“chief executive(s)”	has the meaning ascribed to it under the Listing Rules
“Class Meetings”	the H Share Class Meeting and the A Share Class Meeting
“Company”	山東新華製藥股份有限公司 (Shandong Xinhua Pharmaceutical Company Limited*), a joint stock company with limited liability established in the PRC, whose H Shares and A Shares are listed on the SEHK and the SZSE respectively
“Connected Participant”	an intended participant in the Employee Stock Ownership Scheme who is also a connected person of the Company
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Disinterested Shareholders”	the Shareholders other than any Shareholder who is interested in any of the Connected Participants’ participations in the Employee Stock Ownership Scheme (one of the Subscribers under the Proposed Placing)
“EGM”	the second extraordinary general meeting of the Company in 2016 to be held at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, the PRC on Wednesday, 28 December 2016 for the Disinterested Shareholders to consider and, if thought fit, pass the Extension Resolutions

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## DEFINITIONS

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“Employee Stock Ownership Scheme”	the first phase employee stock ownership scheme of the Company to be set up to allow eligible employees of the Group, including Directors (excluding independent non-executive Directors), Supervisors, senior management and other eligible employees of the Group to apply for interests thereunder and as considered and approved at the general meeting of the Company held on 29 December 2015
“Extension Resolutions”	the proposed resolutions (i) to extend the effective period of the Shareholders’ resolutions relating to the Proposed Placing for a further period of twelve months, commencing from the date of passing the resolution at the EGM and the Class Meetings up to 27 December 2017, both days inclusive; and (ii) to extend the effective period of the authorisation granted to the Board to handle matters relating to the Proposed Placing for a further period of twelve months, commencing from the date of the passing of the resolutions at the EGM and the Class Meetings up to 27 December 2017, both days inclusive
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign Share(s) of the Company, with a nominal value of RMB1.00 each and are listed on the SEHK
“H Share Class Meeting”	the meeting of the holders of H Shares of the Company in 2016 to be held at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC on Wednesday, 28 December 2016 for the purpose of considering and, if thought fit, passing the Extension Resolutions
“H Share Shareholder(s)”	the holder(s) of H Share(s)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors as of the date of this circular formed to advise the Disinterested Shareholders on the Extension Resolutions
“Latest Practicable Date”	5 December 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the SEHK

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## DEFINITIONS

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“PRC”	the People’s Republic of China and, for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Previous Disclosures”	the announcements dated 8 October 2015, 23 November 2015, 29 December 2015, 24 March 2016, 6 April 2016, 15 April 2016, 4 May 2016, 14 September 2016 and 8 November 2016 and the circular dated 14 December 2015 and the supplemental circular dated 11 February 2016 of the Company in relation to, among other things, the Proposed Placing
“Price Adjustment”	the adjustment made and/or may be made to the Subscription Price where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issue or capitalisation of capital reserves) to the Company between the Price Determination Date and the date on which the A Shares under the Proposed Placing will be issued
“Price Determination Date”	9 October 2015, being the date at which the announcement of the Board resolution in relation to the Proposed Placing was published by the Company and the date at which the initial Subscription Price of RMB9.36 per A Share was fixed (adjusted to RMB9.34 as a result of the Price Adjustment consequent on the 2015 Profit Distribution Plan as disclosed in the announcement of the Company dated 14 September 2016)
“Proposed Placing”	the proposed non-public issuance and placing of not more than 77,000,000 A Shares (adjusted to 67,143,466 A Shares as disclosed in the announcements of the Company dated 24 March 2016 and 14 September 2016 respectively)
“RMB”	Renminbi, the lawful currency of the PRC
“SEHK”	The Stock Exchange of Hong Kong Limited
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	A Share(s) and/or H Share(s)

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## DEFINITIONS

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“Share Adjustment”	the adjustment made and/or may be made to the number of A Shares to be issued under the Proposed Placing where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issue or capitalisation of capital reserves) to the Company between the Price Determination Date and the date on which the A Shares under the Proposed Placing will be issued
“Shareholder(s)”	the holder(s) of Shares
“SJY Industrial Fund LLP”	山東聚贏產業基金合夥企業 (有限合夥) (Shandong Ju Ying Industrial Fund Partnership (Limited Partnership)*)
“Subscribers”	BXC PI Fund No. 1, CBR PI Fund No. 1, Employee Stock Ownership Scheme and SJY Industrial Fund LLP (each a “ <b>Subscriber</b> ”)
“Subscription Price”	initially RMB9.36 per A Share (adjusted to RMB9.34 per A Share as disclosed in the announcement of the Company dated 14 September 2016 as a result of the 2015 Profit Distribution Plan)
“Supervisors”	the supervisors of the Company
“SXPGC”	山東新華醫藥集團有限責任公司 (Shandong Xinhua Pharmaceutical Group Company Limited*), a wholly state-owned company which holds and owns 34.46% of the total issued Shares of the Company and is as of the Latest Practicable Date the largest Shareholder
“SZSE”	the Shenzhen Stock Exchange
“trading day(s)”	with respect to A Shares, means a day on which the SZSE is open for dealing or trading in securities, and with respect to H Shares, means a day on which the SEHK is open for dealing or trading in securities
“Zibo”	Zibo City, situated in Shandong Province of the PRC
“%”	per cent

*Certain English translations of Chinese names or words marked with “\*” in this circular are included for reference purpose only and should not be regarded as the official English translations of such Chinese names or words. If there is any inconsistency between such names or words and their English translations in this circular, the Chinese expressions shall prevail.*

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## LETTER FROM THE BOARD

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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: 0719)

*Executive Directors:*

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

*Registered Address:*

Chemical Industry Area of Zibo Hi-tech  
Industry Development Zone, Zibo City  
Shandong Province, PRC

*Non-executive Directors:*

Mr. Ren Fulong  
Mr. Xu Lie  
Mr. Zhao Bin

*Independent Non-executive Directors:*

Mr. Du Guanhua  
Mr. Li Wenming  
Mr. Chan Chung Kik, Lewis

12 December 2016

*To the Shareholders*

Dear Sir or Madam,

**EXTENSION OF THE EFFECTIVE PERIOD OF THE SHAREHOLDERS'  
RESOLUTIONS TO APPROVE THE PROPOSED PLACING  
AND  
EXTENSION OF THE EFFECTIVE PERIOD OF THE AUTHORISATION  
GRANTED TO THE BOARD TO HANDLE MATTERS RELATING TO  
THE PROPOSED PLACING**

**A. INTRODUCTION**

Reference is made to the Previous Disclosures in relation to, among other things, the Proposed Placing and to the notices of the EGM and the H Share Class Meeting dated 10 November 2016 in relation to the Extension Resolutions.



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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with (i) more information on the Extension Resolutions; (ii) a letter of recommendation from the Independent Board Committee to the Disinterested Shareholders; (iii) a letter of advice from Altus Capital to the Independent Board Committee and the Disinterested Shareholders in respect of the Extension Resolutions; and (iv) other information as required under the Listing Rules to enable you to make an informed decision on whether to vote for or against the Extension Resolutions at the EGM and the H Share Class Meeting. The Independent Board Committee has been formed to advise the Disinterested Shareholders in respect of the Extension Resolutions and Altus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders in this regard.

### **B. THE EXTENSION RESOLUTIONS**

Considering that the Company's application for the Proposed Placing is still in progress and pending the approval of the CSRC and the effective period of the Shareholders' resolutions in approval of (i) the Proposed Placing and (ii) the authorisation granted to the Board to handle matters relating to the Proposed Placing (of which both were considered and passed at the previous extraordinary general meeting, the previous A Share class meeting and the previous H Share class meeting held on 29 December 2015) will expire on 28 December 2016, the Board proposes to convene the EGM and the Class Meetings for the Shareholders to consider the following proposed resolutions:

#### *Special Resolutions*

1. To extend the effective period of the Shareholders' resolutions to approve the Proposed Placing for a further period of twelve months, commencing from the date of passing this resolution at the EGM and Class Meetings up to 27 December 2017, both days inclusive.
2. To extend the effective period of the Shareholder's resolution on conferring full powers on the Board to handle matters relating to the Proposed Placing for a further period of twelve months, commencing from the date of passing this resolution at the EGM and Class Meetings up to 27 December 2017, both days inclusive.

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## LETTER FROM THE BOARD

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### C. REASONS FOR THE EXTENSION RESOLUTIONS

The Extension Resolutions are proposed based on the following reasons: (i) the proceeds of the Proposed Placing will strengthen the Company's capital position and enable the Company to optimise its operations and upgrade infrastructure, which will in turn help grow the Company's business; (ii) the proceeds of the Proposed Placing will allow the Company to reduce financing costs and increase profits; (iii) the proceeds of the Proposed Placing can cater for the capital needs of the Company and improve the Company's market competitiveness; (iv) approval from the CSRC is required for the Proposed Placing. The Company has received 中國證監會行政許可申請受理通知書 (Acceptance Notice of the Application for Administrative Permission\*) from the CSRC for granting the administrative permission for processing the application for the Proposed Placing and 中國證監會行政許可項目審查反饋意見通知書 (Feedback on the Review of Administrative Permission Items\*) for reviewing, vetting, commenting and raising queries in respect of the Proposed Placing. The Company and its sponsoring institution under the Proposed Placing have submitted replies dated 28 September 2016 and supplemental replies dated 1 December 2016 to the feedback of the CSRC. As of the Latest Practicable Date, the Company has not yet received from the CSRC further feedback or approval on the Proposed Placing. Having consulted its sponsoring institution under the Proposed Placing, the Company was informed that it would not be possible for the Company to anticipate whether there would be further feedback from the CSRC and when the approval will be granted; and (v) it is expected that there would still be follow-up matters relating to the Proposed Placing, which would require certain time for the Board to deal with and process under the authorisation of Shareholders' resolution at general meeting even after approval from the CSRC is received.

Taking into account the abovementioned reasons, the Board is of the view that it is necessary and in the interests of the Company and the Shareholders as a whole to extend the effective period of (i) the Shareholders' resolutions in approval of the Proposed Placing; and (ii) the authorisation granted to the Board to handle matters relating to the Proposed Placing, both for a further period of twelve months, commencing from the date of passing the relevant resolutions at the EGM and Class Meetings up to 27 December 2017, both days inclusive.

Save for the above extensions, details of the Proposed Placing (revised as disclosed in the Previous Disclosures) remain unchanged and in full force and effect.

### D. THE PROPOSED PLACING

#### (a) Details of the Proposed Placing

**Class and par value of Shares to be issued** : A Shares with a par value of RMB1.00 each.

**Method and time of the Proposed Placing** : The Proposed Placing will be carried out by way of non-public issuance of new A Shares to the Subscribers. The Company will complete the Proposed Placing within six months from obtaining the endorsement of the Proposed Placing from the CSRC.

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## LETTER FROM THE BOARD

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**Number of Shares to be issued** : As disclosed in the circular of the Company dated 14 December 2015, the initial maximum number of A Shares to be issued under the Proposed Placing would not exceed 77,000,000 A Shares, subject to Share Adjustment and any adjustment which may be made by the CSRC. Following (i) the withdrawal of 上海凱勢資產管理有限公司 (SKS Assets Management Limited\*) as a subscriber under the Proposed Placing; and (ii) the Share Adjustment consequent on the 2015 Profit Distribution Plan as disclosed in the announcements of the Company dated 24 March 2016 and 14 September 2016 respectively, the number of A Shares to be issued under the Proposed Placing has been adjusted to 67,143,466 A Shares.

Subject to any further Share Adjustment and any adjustment as appropriate, the 67,143,466 A Shares represents (i) approximately 21.85% of the issued A Shares to be issued and approximately 14.68% of the total issued Shares as at the Latest Practicable Date; and (ii) assuming no change in the total issued Shares other than the issuance of A Shares under the Proposed Placing from the Latest Practicable Date and up to the completion of the Proposed Placing, approximately 17.93% of the enlarged issued A Shares and 12.80% of the enlarged total issued Shares upon completion of the Proposed Placing.

The aggregate nominal value of the A Shares to be issued under the Proposed Placing, with a par value of RMB1.00 each, will not be more than RMB627,120,000.

Assuming no change in the total issued Shares other than the issuance of A Shares under the Proposed Placing from the Latest Practicable Date and up to the completion of the Proposed Placing, upon completion of the Proposed Placing and if all 67,143,466 A Shares are placed, the total number of A Shares in issue will increase from 307,312,830 A Shares to 374,456,296 A Shares and the total issued Shares will increase from 457,312,830 Shares to 524,456,296 Shares.

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## LETTER FROM THE BOARD

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**Target Subscribers** : Pursuant to the Proposed Placing and subject to any adjustment which may be made at the request of the CSRC and any further Share Adjustment, the Company will issue A Shares for subscription by the Subscribers as follows:

- (1) Employee Stock Ownership Scheme : a maximum of 3,752,417 A Shares;
- (2) SJY Industrial Fund LLP : a maximum of 21,405,738 A Shares;
- (3) BXC PI Fund No. 1 : a maximum of 21,405,738 A Shares; and
- (4) CBR PI Fund No. 1 : a maximum of 20,579,573 A Shares.

**Method of subscription and placing** : All the Subscribers shall subscribe for the A Shares to be issued under the Proposed Placing in cash. The Subscription Price for all the A Shares to be issued will be the same.

**Subscription Price and pricing principles** : As disclosed in the circular of the Company dated 14 December 2015, the initial Subscription Price was RMB9.36 per new A Share, being not less than 90% of the average trading price per A Share during the 20 trading days prior to the Price Determination Date, subject to Price Adjustment.

As a result of the 2015 Profit Distribution Plan (as disclosed in the announcement of the Company dated 14 September 2016), the Subscription Price had been adjusted to RMB9.34 per new A Share, subject to any further Price Adjustment.

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## LETTER FROM THE BOARD

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As disclosed in the announcement of the Company dated 14 September 2016, in response to the request of CSRC, a supplemental measure in respect of the Subscription Price has been adopted to the effect that, where the Subscription Price is less than 70% of the average trading price (the “**20-day Average Trading Price**”) per A Share for the 20 trading days prior to the first day of the Issuance Period (as defined below) of the new A Shares under the Proposed Placing, the Subscription Price will be adjusted to a level that is equivalent to 70% of the 20-day Average Trading Price.

Pursuant to the Proposed Placing, the Company may issue A Shares to the Subscribers under the Proposed Placing on any day within a period (the “**Issuance Period**”) of six months from the date of approval of the Proposed Placing by the CSRC.

The Subscription Price represents:

- (i) a discount of approximately 31.07% to the average closing price of RMB13.55 per A Share for the last five trading days immediately prior to 8 November 2016, being the date of the announcement of the Company relating to the Extension Resolutions;
- (ii) a discount of approximately 33.38% over the closing price of RMB14.02 per A Share as at 8 November 2016;
- (iii) a discount of approximately 26.40% over the closing price of RMB12.69 per A Share as at the Latest Practicable Date;
- (iv) a premium of approximately 126.70% over the latest audited net asset value per Share of approximately RMB4.12 as at 31 December 2015, which is calculated based on the number of 457,312,830 Shares in issue as at the Latest Practicable Date and the latest audited consolidated net asset value attributable to the Shareholders of approximately RMB1,884,256,561 as at 31 December 2015;

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## LETTER FROM THE BOARD

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- (v) a premium of approximately 118.22% over the unaudited net asset value per Share of approximately RMB4.28 as at 30 September 2016, which is calculated based on the number of 457,312,830 Shares in issue as at the Latest Practicable Date and the unaudited consolidated net asset value attributable to the Shareholders of approximately RMB1,958,248,778 as at 30 September 2016.

The Subscription Price was determined through arm's length negotiation between the Company and the Subscribers with reference to the trading prices of the A Shares on the SZSE at the time when the Company entered into subscription agreements with each of them in October 2015.

- Lock-up period** : Under the Proposed Placing, all the Subscribers shall not transfer the A Shares subscribed within 36 months from the date of completion of the Proposed Placing.
- Place of listing** : The new A Shares to be issued under the Proposed Placing will be listed on the SZSE. The Company will apply to the SZSE for the listing of, and permission to deal in, the A Shares to be issued.
- Use of proceeds** : Subject to any Share Adjustment, Price Adjustment and adjustment which may be made at the request of the CSRC, if all 67,143,466 new A Shares are placed, the Proposed Placing will raise gross proceeds of approximately RMB627.12 million. The net proceeds from the Proposed Placing, after deducting all related expenses incurred, will be used to repay the bank borrowing and for general working capital purposes, of which approximately RMB550 million out of the net proceeds will be allocated to repay existing bank borrowings and the remaining part of the net proceeds will be used for replenishment of working capital.

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## LETTER FROM THE BOARD

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**Arrangements for the accumulated undistributed profits** : Upon completion of the Proposed Placing, the accumulated retained earnings prior to the completion of the Proposed Placing will be shared among the existing Shareholders and holders of the new A Shares issued.

**Effective period of the Shareholders' resolutions** : The original effective period of the Shareholders' resolutions approving the Proposed Placing will expire on 28 December 2016. The Board proposes to extend the effective period of the Shareholders' resolutions for a further period of twelve months, commencing from the date of the Extension Resolutions at the EGM and the Class Meetings up to 27 December 2017, both days inclusive.

**(b) Conditions precedent of the Proposed Placing**

The Proposed Placing is subject to the satisfaction of certain conditions including, among other things:

- (i) the passing of the relevant Board resolutions in respect of the Proposed Placing;
- (ii) the obtainment of approvals from the State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government regarding the Proposed Placing;
- (iii) the passing of all relevant resolutions in respect of the Proposed Placing at the previous extraordinary general meeting, A Share class meeting and H Share meeting held on 29 December 2015; and
- (iv) the obtainment of approval from the CSRC regarding the Proposed Placing.

None of the above conditions may be waived by any party to the Proposed Placing and, therefore, if any condition above cannot be fulfilled, the Company will not proceed with the Proposed Placing.

As at the Latest Practicable Date, condition (iv) above is the only condition which remains unfulfilled.

## LETTER FROM THE BOARD

### (c) Effects on the shareholding structure of the Company

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the completion of the Proposed Placing (assuming no change in the total issued Shares other than the issuance of A Shares under the Proposed Placing from the Latest Practicable Date and up to the completion of the Proposed Placing):

Shareholders	(i) As at the Latest Practicable Date		(ii) Immediately after the completion of the Proposed Placing	
	No. of Shares	% (of all Shares)	No. of Shares	% (of all Shares)
<u>A Shares</u>				
SXPGC	157,587,763	34.46%	157,587,763	30.05%
Mr. Zhang Daiming <sup>Note 1</sup>	11,900	0.003%	11,900	0.002%
Subscribers				
– Employee Stock Ownership Scheme	–	–	3,752,417	0.72%
– SJY Industrial Fund LLP	–	–	21,405,738	4.08%
– BXC PI Fund No. 1	–	–	21,405,738	4.08%
– CBR PI Fund No. 1	–	–	20,579,573	3.92%
Other public A Share Shareholders	<u>149,713,167</u>	<u>32.74%</u>	<u>149,713,167</u>	<u>28.55%</u>
Total number of A Shares	<u>307,312,830</u>	<u>67.20%</u>	<u>374,456,296</u>	<u>71.40%</u>
<u>H Shares</u>				
Well Bring Limited <sup>Note 2</sup>	13,686,000	2.99%	13,686,000	2.61%
Public H Share Shareholders	<u>136,314,000</u>	<u>29.81%</u>	<u>136,314,000</u>	<u>25.99%</u>
Total number of H Shares	<u>150,000,000</u>	<u>32.80%</u>	<u>150,000,000</u>	<u>28.60%</u>
Total number of Shares	<u>457,312,830</u>	<u>100.00%</u>	<u>524,456,296</u>	<u>100.00%</u>

*Notes:*

- Save for Mr. Zhang Daiming whose relevant percentages are rounded to the nearest three decimal places, the percentages shown above are rounded to the nearest two decimal places. Numbers may not add up to 100% due to rounding.
- Well Bring Limited, a Hong Kong incorporated company, is the indirect wholly-owned subsidiary of 華魯控股有限公司 (Hualu Holdings Group Company Limited\*), the Company's ultimate holding company and the sole shareholder of SXPGC (the Company's direct controlling Shareholder).



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## LETTER FROM THE BOARD

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**(d) Issue of Securities within the past twelve months**

The Company had not issued any securities within the twelve months prior to the Latest Practicable Date.

**(e) Reasons for the Proposed Placing**

*To strengthen and expand the Company's core business*

In recent years, the Company's core business has grown steadily while its capital investment has increased. It is now necessary to bring the Company's working capital in line with this increased expenditure. Through the Proposed Placing, additional capital will be raised to strengthen the Company's capital position. The increased capital amount will enable the Company to optimise its operations and upgrade infrastructure, which will in turn help grow the Company's business.

*To improve the Company's financial position and enhance the Company's profitability*

RMB650 million of the placing funds was planned to be allocated (adjusted to RMB550 million following the withdrawal of SKS Assets Management Limited and the corresponding reduction in subscription amount) to repay existing bank borrowings, thereby improving the Company's debt position and reducing its exposure to financial risk. The additional capital will allow the Company to reduce financing costs and increase profits.

*To fulfil working capital needs, improve market competitiveness*

Notwithstanding the fact that the Company's level of accounts receivable and inventory management are currently in healthy positions, pharmaceutical companies typically exhibit high levels of accounts receivable and inventory. It is expected that the placing funds available, following the repayment of existing bank borrowings, will satisfy the Company's capital needs and improve the Company's market competitiveness.

*To enhance competitiveness and achieve development strategies*

To improve its current position and secure its continued development, the Company plans to upgrade its production facilities and target growth in international markets. A series of projects and development strategies will be formulated and implemented. The placing funds, available following the repayment of existing bank borrowings, are expected to be used to cover the cost of implementing these strategies.

**(f) Further details of the Proposed Placing**

For further details of the Proposed Placing, please refer to the Previous Disclosures.

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## LETTER FROM THE BOARD

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### **E. AUTHORISATION GRANTED TO THE BOARD TO HANDLE MATTERS RELATING TO THE PROPOSED PLACING**

The original effective period of the authorisation granted to the Board to handle matters relating to the Proposed Placing will expire on 28 December 2016. For the purpose of handling matters relating to the Proposed Placing, it is proposed that the effective period of the full powers conferred on the Board to handle all matters relating to the Proposed Placing including without limitation to the matters set out in (a) to (j) below be extended for a further period of twelve months, commencing from the date of passing the Extension Resolutions at the EGM and the Class Meetings up to 27 December 2017, both days inclusive:

- (a) deciding over relevant working parties including without limitation to sponsoring institution(s), underwriter(s) and lawyer(s);
- (b) to formulate, amend, supplement, sign, submit, report and implement all agreements and documents in relation to the Proposed Placing in accordance with the relevant requirements of laws, regulations, administrative rules, regulatory documents and the resolutions of general meetings, which include but are not limited to agreement(s) with sponsoring institution(s), underwriting agreements, contracts of engagement, share subscription agreements and relevant announcements, and to make disclosures in relation to the Proposed Placing according to regulatory requirements;
- (c) to prepare and file all the application documents for the Proposed Placing in accordance with the requirements of the CSRC and other relevant regulatory authorities and to reply to the queries of such authorities concerned based on their comments and feedback and to revise and supplement such application documents accordingly;
- (d) subject to the resolutions of the general meetings and without changing the use of the proceeds raised under the Proposed Placing as approved by the Shareholders, to adjust the fund-raising exercise as required by the relevant regulatory authorities and in accordance with the practicable circumstances; the Company may at its discretion allocate such resources to the relevant uses of proceeds as approved by the Shareholders and subsequently reallocate equivalent amounts from the proceeds of the Proposed Placing to cover such expenditures, and the Board be and is authorised to open a specified deposit account for the proceeds of the Proposed Placing;
- (e) to formulate and implement the detailed plan for the Proposed Placing according to the plan passed at general meeting, approvals from the CSRC, market conditions and the actual situation of the Company. The plan should include without limitation to the timing of the Proposed Placing, the commencement and closing dates of the issuance, the number of Shares to be issued and the scale of proceeds, and matters in relation to the price of the Shares to be issued;

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## LETTER FROM THE BOARD

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- (f) upon completion of the Proposed Placing, to handle matters in relation to the registration, lock-up and listing of the Shares to be issued under the Proposed Placing on the SZSE and the Shenzhen Branch of the China Securities Depository and Clearing Corporation Limited;
- (g) to adjust and amend the Articles of Association of the Company and the annexures thereto in accordance with the requirements of laws and regulations or as requested and advised by the CSRC and other regulatory authorities; to conduct capital verification procedures for the increase in registered capital of the Company, to revise the relevant provisions under the Articles of Association of the Company, and to apply for registration and/or filing of change of business based on the results of the Proposed Placing;
- (h) to postpone or terminate, at its discretion, the Proposed Placing on the occurrence of force majeure events or other circumstances that may result in difficulties in proceeding with the Proposed Placing or where implementation of the Proposed Placing may incur material adverse effects to the interests of the Company as a whole;
- (i) to handle all other matters in relation to the Proposed Placing subject to laws, regulations, the administrative rules or regulatory documents of the CSRC and the Articles of Association of the Company; and
- (j) the authorisation shall be effective for the twelve months commencing from the date of passing this resolution at the general meeting of the Company.

### **F. SUBSCRIPTION AGREEMENTS AND SUPPLEMENTAL AGREEMENTS IN RELATION TO THE PROPOSED PLACING**

The Company has entered into a subscription agreement and a supplemental agreement with each of the Subscribers (collectively, the “**Subscription Agreements**”) in relation to the Proposed Placing, of which the principal terms were set out below.

Completion of each of the Subscription Agreements is not conditional upon the others.

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## LETTER FROM THE BOARD

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### 1. Subscription by SJY Industrial Fund LLP

The principal terms of the SJY Industrial Fund LLP subscription agreement (the “**SJY Industrial Fund LLP Subscription Agreement**”) as amended and supplemented by its supplemental agreement (the “**SJY Industrial Fund LLP Supplemental Agreement**”) are summarised below:

**Date** : SJY Industrial Fund LLP Subscription Agreement:  
8 October 2015; and

SJY Industrial Fund LLP Supplemental Agreement:  
14 September 2016.

**Parties** : (i) the Company as the issuer; and  
(ii) SJY Industrial Fund LLP as the Subscriber.

**Subscription Price** : Initially RMB9.36 per new A Share, which was subsequently adjusted to RMB9.34 per new A Share as a result of the Price Adjustment consequent on the 2015 Profit Distribution Plan.

As disclosed in the circular of the Company dated 14 December 2015, the Subscription Price of RMB9.36 per new A Share is subject to any Price Adjustment which may be made where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issue or capitalisation of capital reserves) to the Company between the Price Determination Date and the date of the proposed issuance of A Shares. As disclosed in the announcement of the Company dated 14 September 2016, as a result of the final dividend of RMB0.02 (tax included) per Share for the year 2015 under the 2015 Profit Distribution Plan as considered and approved at the annual general meeting of the Company on 29 June 2016, the Subscription Price was adjusted in accordance with the Price Adjustment (“**September 2016 Price Adjustment**”) as follows:

Adjusted Subscription Price = Subscription Price – dividend per Share  
= RMB9.36 per A Share – RMB0.02 per Share  
= RMB9.34 per A Share

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## LETTER FROM THE BOARD

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Besides, as disclosed in the announcement of the Company dated 14 September 2016, in response to the request of CSRC, a supplemental measure in respect of Price Adjustment mechanism (“**Supplemental Price Adjustment Mechanism**”) was adopted as follows:

Where the Subscription Price is less than 70% of the average trading price (the “**20-day Average Trading Price**”) per A Share for the 20 trading days prior to the first day of the Issuance Period (the “**First Issuance Day**”) of the new A Shares under the Proposed Placing, the Subscription Price will be adjusted to a level that is equivalent to 70% of the 20-day Average Trading Price (the 20-Day Average Trading Price will be the quotient of the total transaction value of A Shares for the 20 trading days prior to the First Issuance Day divided by the total trading volume of A Shares for the 20 trading days prior to the First Issuance Day).

### **Subscription Shares**

A maximum of 21,360,000 new A Shares, which were subsequently adjusted to 21,405,738 new A Shares as a result of the Share Adjustment consequent on the 2015 Profit Distribution Plan.

As disclosed in the circular of the Company dated 14 December 2015, the number of A Shares to be issued and subscribed is subject to any Share Adjustment which may be made where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issuance or capitalisation of capital reserves) to the Company between the Price Determination Date and the date of the proposed issuance of A Shares. As disclosed in the announcement of the Company dated 14 September 2016, as a result of the September 2016 Price Adjustment, the number of A Shares to be issued to SJY Industrial Fund LLP was adjusted to 21,405,738 A Shares in accordance with the Share Adjustment, the calculation of which is set out as follows:

$$\begin{aligned} \text{Number of A Shares to be issued to and subscribed by SJY Industrial Fund LLP after the September 2016 Price Adjustment} &= \text{Subscription amount by SJY Industrial Fund LLP} \div \text{Subscription Price adjusted as a result of the September 2016 Share Adjustment} \\ &= \text{RMB199,929,600} \div \text{RMB9.34} \\ &= 21,405,738 \text{ A Shares (rounded down to the nearest Share)} \end{aligned}$$

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## LETTER FROM THE BOARD

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Besides, as disclosed in the announcement of the Company dated 14 September 2016, in response to the request of CSRC, a supplemental measure in respect of Share Adjustment mechanism (“**Supplemental Share Adjustment Mechanism**”) was adopted as follows:

Where the Subscription Price is less than 70% of the 20-day Average Trading Price prior to the First Issuance Day, the Subscription Price will be adjusted to a level that is equivalent to 70% of the 20-day Average Trading Price in accordance with the Price Adjustment and the number of new A Shares to be issued under the Proposed Placing will be adjusted accordingly (number of new A Shares to be issued under the Proposed Placing will be the quotient of the subscription amount divided by the Subscription Price after Price Adjustment).

- Lock-up undertaking** : 36 months from the date of completion of the Proposed Placing.
- Conditions precedent** : Details of which are set out in the sub-section headed “D. THE PROPOSED PLACING – (b) Conditions precedent of the Proposed Placing” above.
- Payment and completion** : Subject to the satisfaction of the conditions precedent, payment of the subscription amount will be made in cash by SJY Industrial Fund LLP on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.

The Company will appoint a certified registered accountant in the PRC to verify the payment made by SJY Industrial Fund LLP for its subscription and issue the relevant verification report.

The Company will apply to register the A Shares subscribed by SJY Industrial Fund LLP with the securities and depository and clearing institution upon receipt of the subscription amounts from the Subscribers.

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## LETTER FROM THE BOARD

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In the event that SJY Industrial Fund LLP fails to make payment of its subscription amount, SJY Industrial Fund LLP shall be liable to pay the Company 0.1% of the overdue amount daily since the date of default and 10% of the overdue amount after ten business days since the date of default.

### 2. Subscription by BXC Assets Management Limited

The principal terms of the BXC Assets Management Limited subscription agreement (the “**BXC Subscription Agreement**”) as amended and supplemented by its supplemental agreement (the “**BXC Supplemental Agreement**”) are summarised below:

**Date** : BXC Subscription Agreement: 8 October 2015; and  
BXC Supplemental Agreement: 14 September 2016.

**Parties** : (i) the Company as the issuer;  
(ii) BXC Assets Management Limited; and  
(iii) BXC PI Fund No. 1 as the Subscriber.

**Subscription Price** : Initially RMB9.36 per new A Share, which was subsequently adjusted to RMB9.34 per new A Share as a result of the Price Adjustment consequent on the 2015 Profit Distribution Plan.

As disclosed in the circular of the Company dated 14 December 2015, the Subscription Price of RMB9.36 per new A Share is subject to any Price Adjustment which may be made where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issuance or capitalisation of capital reserves) to the Company between the Price Determination Date and the date of the proposed issuance of A Shares. As disclosed in the announcement of the Company dated 14 September 2016, as a result of the final dividend of RMB0.02 (tax included) per Share for the year 2015 under the 2015 Profit Distribution Plan as considered and approved at the annual general meeting of the Company on 29 June 2016, the Subscription Price was adjusted in accordance with the September 2016 Price Adjustment.

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## LETTER FROM THE BOARD

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Besides, as disclosed in the announcement of the Company dated 14 September 2016, in response to the request of CSRC, the Supplemental Price Adjustment Mechanism was adopted.

**Subscription Shares** : A maximum of 21,360,000 A Shares, which were subsequently adjusted to 21,405,738 A Shares as a result of the Share Adjustment consequent on the 2015 Profit Distribution Plan.

As disclosed in the circular of the Company dated 14 December 2015, the number of A Shares to be issued and subscribed is subject to any Share Adjustment which may be made where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issuance or capitalisation of capital reserves) to the Company between the Price Determination Date and the date of the proposed issuance of A Shares. As disclosed in the announcement of the Company dated 14 September 2016, as a result of the September 2016 Price Adjustment, the number of A Shares to be issued to BXC PI Fund No.1 was adjusted to 21,405,738 A Shares in accordance with the Share Adjustment, the calculation of which is set out as follows:

Number of A Shares to be issued to and subscribed by BXC PI Fund No.1 after the September 2016 Price Adjustment	=	Subscription amount by BXC PI Fund No.1 ÷ Subscription Price adjusted as a result of the September 2016 Share Adjustment
	=	RMB199,929,600 ÷ RMB9.34
	=	21,405,738 A Shares (rounded down to the nearest Share)

Besides, as disclosed in the announcement of the Company dated 14 September 2016, in response to the request of CSRC, the Supplemental Share Adjustment Mechanism was adopted.

**Lock-up undertaking** : 36 months from the date of completion of the Proposed Placing.



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## LETTER FROM THE BOARD

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**Conditions precedent** : Details of which are set out in the sub-section headed “D. THE PROPOSED PLACING – (b) Conditions precedent of the Proposed Placing” above.

**Payment and completion** : Subject to the satisfaction of the conditions precedent, payment of the subscription amount will be made in cash by BXC PI Fund No. 1 on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.

The Company will appoint a certified registered accountant in the PRC to verify the payment made by BXC PI Fund No. 1 for its subscription and issue the relevant verification report.

The Company will apply to register the A Shares subscribed by BXC PI Fund No. 1 with the securities and depository and clearing institution upon receipt of the subscription amounts from the Subscribers.

In the event that BXC PI Fund No. 1 fails to make payment of its subscription amount, BXC PI Fund No. 1 shall be liable to pay the Company 0.1% of the overdue amount daily since the date of default and 10% of the overdue amount after ten business days since the date of default.

### 3. Subscription of CBR Investment Fund Management Limited

The principal terms of the CBR Investment Fund Management Limited subscription agreement (the “**CBR Subscription Agreement**”) as supplemented by its supplemental agreement (the “**CBR Supplemental Agreement**”) are summarised below:

**Date** : CBR Subscription Agreement: 8 October 2015; and  
CBR Supplemental Agreement: 14 September 2016

**Parties** : (i) the Company as the issuer;  
(ii) CBR Investment Fund Management Limited; and  
(iii) CBR PI Fund No. 1 as the Subscriber.

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## LETTER FROM THE BOARD

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**Subscription Price** : Initially RMB9.36 per new A Share, which was subsequently adjusted to RMB9.34 per new A Share as a result of the Price Adjustment consequent on the 2015 Profit Distribution Plan.

As disclosed in the circular of the Company dated 14 December 2015, the Subscription Price of RMB9.36 per new A Share is subject to any Price Adjustment which may be made where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issuance or capitalisation of capital reserves) to the Company between the Price Determination Date and the date of the proposed issuance of A Shares. As disclosed in the announcement of the Company dated 14 September 2016, as a result of the final dividend of RMB0.02 (tax included) per Share for the year 2015 under the 2015 Profit Distribution Plan as considered and approved at the annual general meeting of the Company on 29 June 2016, the Subscription Price was adjusted in accordance with the September 2016 Price Adjustment.

Besides, as disclosed in the announcement of the Company dated 14 September 2016, in response to the request of CSRC, the Supplemental Price Adjustment Mechanism was adopted.

**Subscription Shares** : A maximum of 20,535,600 A Shares, which were subsequently adjusted to 20,579,573 A Shares as a result of the Share Adjustment consequent on the 2015 Profit Distribution Plan.

As disclosed in the circular of the Company dated 14 December 2015, the number of A Shares to be issued and subscribed is subject to any Share Adjustment which may be made where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issuance or capitalisation of capital reserves) to the Company between the Price Determination Date and the date of the proposed issuance of A Shares. As disclosed in the announcement of the Company dated 14 September 2016, as a result of the September 2016 Price Adjustment, the number of A Shares to be issued to CBR PI Fund No. 1 was adjusted to 20,579,573 A Shares in accordance with the Share Adjustment, the calculation of which is set out as follows:

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## LETTER FROM THE BOARD

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$$\begin{aligned} \text{Number of A Shares to be issued to and subscribed by CBR PI Fund No. 1 after the September 2016 Price Adjustment} &= \text{Subscription amount by CBR PI Fund No. 1} \div \text{Subscription Price adjusted as a result of the September 2016 Share Adjustment} \\ &= \text{RMB192,213,216} \div \text{RMB9.34} \\ &= 20,579,573 \text{ A Shares (rounded down to the nearest Share)} \end{aligned}$$

Besides, as disclosed in the announcement of the Company dated 14 September 2016, in response to the request of CSRC, the Supplemental Share Adjustment Mechanism was adopted.

- Lock-up undertaking** : 36 months from the date of completion of the Proposed Placing.
- Conditions precedent** : Details of which are set out in the sub-section headed “D. THE PROPOSED PLACING – (b) Conditions precedent of the Proposed Placing” above.
- Payment and completion** : Subject to the satisfaction of the conditions precedent, payment of the subscription amount will be made in cash by CBR PI Fund No. 1 on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.

The Company will appoint a certified registered accountant in the PRC to verify the payment made by CBR PI Fund No. 1 for its subscription and issue the relevant verification report.

The Company will also apply in writing to register the A Shares subscribed by CBR PI Fund No. 1 with the securities and depository and clearing institution as soon as practicable.

In the event that CBR PI Fund No. 1 fails to make payment of its subscription amount, CBR PI Fund No. 1 shall be liable to pay the Company 0.1% of the overdue amount daily since the date of default and 10% of the overdue amount after ten business days since the date of default.

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## LETTER FROM THE BOARD

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### 4. Subscription by Employee Stock Ownership Scheme

The major terms of the Employee Stock Ownership Scheme subscription agreement (the “**Employee Stock Ownership Scheme Subscription Agreement**”) as amended and supplemented by its supplemental agreement (the “**Employee Stock Ownership Scheme Supplemental Agreement**”) are summarised below:

- Date** : Employee Stock Ownership Scheme Subscription Agreement: 8 October 2015; and  
Employee Stock Ownership Scheme Supplemental Agreement: 14 September 2016.
- Parties** : (i) the Company as the issuer; and  
(ii) the Employee Stock Ownership Scheme as the Subscriber.
- Subscription Price** : Initially RMB9.36 per new A Share, which was subsequently adjusted to RMB9.34 per new A Share as a result of the Price Adjustment consequent on the 2015 Profit Distribution Plan.

As disclosed in the circular of the Company dated 14 December 2015, the Subscription Price of RMB9.36 per new A Share is subject to any Price Adjustment which may be made where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issuance or capitalisation of capital reserves) to the Company between the Price Determination Date and the date of the proposed issuance of A Shares. As disclosed in the announcement of the Company dated 14 September 2016, as a result of the final dividend of RMB0.02 (tax included) per Share for the year 2015 under the 2015 Profit Distribution Plan as considered and approved at the annual general meeting of the Company on 29 June 2016, the Subscription Price was adjusted in accordance with the September 2016 Price Adjustment.

Besides, as disclosed in the announcement of the Company dated 14 September 2016, in response to the request of CSRC, the Supplemental Price Adjustment Mechanism was adopted.

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## LETTER FROM THE BOARD

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**Subscription Shares** : A maximum of 3,744,400 new A Shares, which were subsequently adjusted to 3,752,417 new A Shares as a result of the Share Adjustment consequent on the 2015 Profit Distribution Plan.

As disclosed in the circular of the Company dated 14 December 2015, the number of A Shares to be issued and subscribed is subject to any Share Adjustment which may be made where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issuance or capitalisation of capital reserves) to the Company between the Price Determination Date and the date of the proposed issuance of A Shares. As disclosed in the announcement of the Company dated 14 September 2016, as a result of the September 2016 Price Adjustment, the number of A Shares to be issued to Employee Stock Ownership Scheme was adjusted to 3,752,417 A Shares in accordance with the Share Adjustment, the calculation of which is set out as follows:

Number of A Shares to be issued to and subscribed by Employee Stock Ownership Scheme after the September 2016 Price Adjustment	=	Subscription amount by Employee Stock Ownership Scheme ÷ Subscription Price adjusted as a result of the September 2016 Share Adjustment
	=	RMB35,047,584 ÷ RMB9.34
	=	3,752,417 A Shares (rounded down to the nearest Share)

Besides, as disclosed in the announcement of the Company dated 14 September 2016, in response to the request of CSRC, the Supplemental Share Adjustment Mechanism was adopted.

**Lock-up undertaking** : 36 months from the date of completion of the Proposed Placing.

**Conditions precedent** : Details of which are set out in the sub-section headed “D. THE PROPOSED PLACING – (b) Conditions precedent of the Proposed Placing” above.

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## LETTER FROM THE BOARD

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**Payment and completion :** Subject to the satisfaction of the conditions precedent, payment of the subscription amount will be made in cash by the Employee Stock Ownership Scheme on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.

The Company will appoint a certified registered accountant in the PRC to verify the payment made by the Employee Stock Ownership Scheme for its subscription and issue the relevant verification report.

The Company will apply to register the A Shares subscribed by the Employee Stock Ownership Scheme with the securities and depository and clearing institution upon receipt of the subscription amounts from the Subscribers.

In the event of breach of contract or representations and warranties by a party to the subscription agreement, the breaching party shall be liable to take remedial measures and indemnify the other party for the loss suffered.

Each of the SJY Industrial Fund LLP Supplemental Agreement, BXC Supplemental Agreement, CBR Supplemental Agreement and Employee Stock Ownership Scheme Supplemental Agreement (collectively, the “**Supplemental Agreements**”) were entered into by the Company and the respective Subscribers for and only for the purpose of confirming and recognising the adjusted Subscription Price of RMB9.34 per new A Share as a result of the September 2016 Price Adjustment, the Share Adjustment consequent on the September 2016 Price Adjustment, the Supplemental Price Adjustment Mechanism and the Supplemental Share Adjustment Mechanism.

As disclosed in the circular of the Company dated 14 December 2015, BXC Assets Management Limited and CBR Investment Fund Management Limited would each establish a fund through which they will subscribe for their respective subscription Shares under the Proposed Placing. As disclosed in the announcement of the Company dated 14 September 2016, BXC PI Fund No. 1 and CBR PI Fund No. 1 were established for the abovementioned purpose. As a result, the BXC Supplemental Agreement and the CBR Supplemental Agreement have respectively confirmed and recognised BXC PI Fund No. 1 and CBR PI Fund No. 1 as Subscribers under the Proposed Placing.

Save as disclosed above, all other terms and conditions of the SJY Industrial Fund LLP Subscription Agreement, BXC Subscription Agreement, CBR Subscription Agreement and Employment Stock Ownership Scheme Subscription Agreement remain unchanged and in full force and effect in all respects.

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## LETTER FROM THE BOARD

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### **G. IMPLICATIONS OF THE PROPOSED PLACING AND EXTENSION RESOLUTIONS UNDER THE HONG KONG LISTING RULES**

As six intended participants of the Employee Stock Ownership Scheme (one of the Subscribers in the Proposed Placing) are Directors and Supervisors, they are connected persons of the Company under the Listing Rules and their participations in the Employee Stock Ownership Scheme will constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As such, the participations in the Employee Stock Ownership Scheme by these connected persons have each been considered and approved by the Disinterested Shareholders at the previous extraordinary general meeting, the previous A Share class meeting and the previous H Share class meeting held on 29 December 2015.

As at the Latest Practicable Date, a total of 499 intended participants (of whom four are Directors and two are Supervisors, as disclosed in the circular of the Company dated 14 December 2015) have indicated their intention to participate in the Employee Stock Ownership Scheme. Subsequent to the Price Adjustment and Share Adjustment a result of the 2015 Profits Distribution Plan (as disclosed in the announcement of the Company dated 14 September 2016) and as at the Latest Practicable Date, the interests attributable to the six Connected Participants under the Employee Stock Ownership Scheme will be equivalent to approximately 546,038 A Shares, representing 14.55% of the A Shares to be subscribed by the Employee Stock Ownership Scheme. Pursuant to Rule 14A.12 of the Listing Rules, as the Employee Stock Ownership Scheme is an employees' share scheme established for a wide scope of participants, and the aggregate interest of the Connected Participants in the Employee Stock Ownership Scheme will be less than 30%, the Employee Stock Ownership Scheme is not deemed as an associate of the Company's connected persons. As a result, the entering into of the Employee Stock Ownership Scheme Subscription Agreement and the Employee Stock Ownership Scheme Supplemental Agreement between the Employee Stock Ownership Scheme and the Company does not constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

All executive Directors, Mr. Zhang Daiming and Mr. Du Deping, and two non-executive Directors, Mr. Ren Fulong and Mr. Xu Lie, who have indicated their intended participation in the Employee Stock Ownership Scheme (one of the Subscribers in the Proposed Placing), have abstained from voting on the relevant Board resolutions approving the Extension Resolutions.

Save as disclosed above, none of the Directors have a material interest in the proposed implementation of the Proposed Placing or are required to abstain from voting on the Board resolutions considering and approving the Extension Resolutions.

As of the Latest Practicable Date, Mr. Zhang Daiming, an executive Director, owns 11,900 A Shares and none of his associates own any Shares. Mr. Zhang Daiming, an intended participant in the Employee Stock Ownership Scheme (one of the Subscribers in the Proposed Placing), will not vote on the Extension Resolutions.

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## LETTER FROM THE BOARD

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### **H. EGM AND CLASS MEETINGS**

The EGM, A Share Class Meeting and H Share Class Meeting will be held at the Conference Room of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC at 2:00 pm, 3:00 pm and 4:00 pm respectively on Wednesday, 28 December 2016. At the EGM, A Share Class Meeting and H Share Class Meeting, the Extension Resolutions will be put forward by way of special resolutions for the Disinterested Shareholders to consider and, if thought fit, to approve accordingly.

The special resolutions to be proposed at the EGM, A Share Class Meeting and H Share Class Meeting are required to be passed by over two-thirds of the voting rights held by respective Shareholders who attend and eligible to vote at the EGM, A Share Class Meeting and H Share Class Meeting.

The notices convening the EGM and the H Share Class Meeting and forms of proxy were published on the websites of the SEHK (<http://www.hkexnews.hk>) and the Company () on 10 November 2016 and despatched to the Shareholders on 11 November 2016 respectively.

Whether or not you intend to attend the EGM and the H Share Class Meeting, please complete the forms of proxy despatched together with the aforementioned notices in accordance with the instructions printed thereon and return them to the office of the Company's H Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for H Share Shareholders as soon as possible and in any event not less than 24 hours before the time for holding of the EGM and the H Share Class Meeting or any adjournment thereof. Completion and return of the forms of proxy will not preclude you from attending and voting at the EGM and the H Share Class Meeting should you so wish.

### **I. RECOMMENDATIONS**

Your attention is drawn to the letter from the Independent Board Committee set out on pages 27 to 28 of this circular which contains its recommendations to the Disinterested Shareholders as to voting at the EGM and the H Share Class Meeting as regards the Extension Resolutions.

Your attention is also drawn to the letter from Altus Capital set out on pages 29 to 38 of this circular which contains its advice to the Independent Board Committee and the Disinterested Shareholders as regards the Extension Resolutions and the principal factors and reasons considered by it in arriving thereat.

The Directors (including the independent non-executive Directors after receiving the advice from Altus Capital) consider that the Extension Resolutions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.



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## LETTER FROM THE BOARD

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Accordingly, the Directors (including the independent non-executive Directors) recommend the Disinterested Shareholders to vote in favour of the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting. You are advised to read the letters from the Independent Board Committee and Altus Capital mentioned above before deciding your vote on the Extension Resolutions.

### **J. FURTHER INFORMATION**

Shareholders and potential investors should be cautioned that the Proposed Placing is subject to the approval from the CSRC and, therefore, the Proposed Placing may or may not proceed. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
By order of the Board of Directors  
**Shandong Xinhua Pharmaceutical Company Limited**  
**Zhang Daiming**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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: 0719)

*Independent Non-executive Directors:*

Mr. Du Guanhua

Mr. Li Wenming

Mr. Chan Chung Kik, Lewis

*Registered Address:*

Chemical Industry Area of Zibo Hi-tech

Industry Development Zone, Zibo City

Shandong Province, the PRC

12 December 2016

*To the Disinterested Shareholders*

Dear Sir or Madam,

**EXTENSION OF THE EFFECTIVE PERIOD OF THE SHAREHOLDERS'  
RESOLUTIONS TO APPROVE THE PROPOSED PLACING  
AND  
EXTENSION OF THE EFFECTIVE PERIOD OF THE AUTHORISATION  
GRANTED TO THE BOARD TO HANDLE MATTERS RELATING TO  
THE PROPOSED PLACING**

We refer to the circular of the Company dated 12 December 2016 (the “**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular have the same meanings when used herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Disinterested Shareholders in respect of the fairness and reasonableness of the Extension Resolutions in accordance with the Listing Rules and to recommend whether or not the Disinterested Shareholders should vote in favour of the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting. Altus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders in this regard.

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## **LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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We wish to draw your attention to the “Letter from the Board” set out on pages 1 to 26 of the Circular and the “Letter from Altus Capital” set out on pages 29 to 38 of the Circular.

Having taken into account the principal factors and reasons considered by, and the opinion of, Altus Capital as set out in the “Letter from Altus Capital” in the Circular, we are of the view that the Extension Resolutions (i) are in the interests of the Company and the Shareholders as a whole; and (ii) are fair and reasonable so far as the Disinterested Shareholders are concerned.

Accordingly, we recommend the Disinterested Shareholders to vote in favour of the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting.

Yours faithfully,

For and on behalf of the Independent Board Committee of  
**Shandong Xinhua Pharmaceutical Company Limited**

**Mr. Du Guanhua**

**Mr. Li Wenming**

**Mr. Chan Chung Kik, Lewis**

*Independent non-executive Directors*

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## LETTER FROM ALTUS CAPITAL

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*The following is the text of a letter of advice from Altus Capital to the Independent Board Committee and the Disinterested Shareholders in respect of the Extension Resolutions, which has been prepared for the purpose of incorporation in this circular.*

21 Wing Wo Street  
Central, Hong Kong

12 December 2016

*To the Independent Board Committee and the Disinterested Shareholders*

Shandong Xinhua Pharmaceutical Company Limited  
Chemical Industry Area of Zibo Hi-tech  
Industry Development Zone, Zibo City  
Shandong Province  
PRC

Dear Sir and Madams,

**EXTENSION OF THE EFFECTIVE PERIOD OF THE SHAREHOLDERS'  
RESOLUTIONS TO APPROVE OF THE PROPOSED PLACING  
AND  
EXTENSION OF THE EFFECTIVE PERIOD OF THE AUTHORISATION  
GRANTED TO THE BOARD TO HANDLE MATTERS RELATING TO  
THE PROPOSED PLACING**

### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders in respect of the Extension Resolutions. Details of the Extension Resolutions are set out in the "Letter from the Board" contained in the circular of the Company dated 12 December 2016 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Considering that the Company's application for the Proposed Placing is still in progress and pending the approval of the CSRC and the effective period of the Shareholders' resolutions to approve (i) the Proposed Placing and (ii) the authorisation granted to the Board to handle matters relating to the Proposed Placing

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## LETTER FROM ALTUS CAPITAL

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(of which both were considered and passed at the previous extraordinary general meeting, the previous A Share class meeting and the previous H Share class meeting held on 29 December 2015) will expire on 28 December 2016, the Board proposes to convene the EGM and the Class Meetings for the Shareholders to consider (i) to extend the effective period of the Shareholders' resolutions in approval of the Proposed Placing for a further period of twelve months, commencing from the date of passing this resolution at the EGM and Class Meetings up to 27 December 2017, both days inclusive; and (ii) to extend the effective period of the Shareholders' resolutions on conferring full powers on the Board to handle matters relating to the Proposed Placing for a further period of twelve months, commencing from the date of passing the resolutions at the respective EGM and Class Meetings up to 27 December 2017, both days inclusive.

### **LISTING RULES IMPLICATIONS**

As six intended participants of the Employee Stock Ownership Scheme (one of the Subscribers in the Proposed Placing) are Directors and Supervisors, they are connected persons of the Company under the Listing Rules and their participations in the Employee Stock Ownership Scheme constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As such, the participations in the Employee Stock Ownership Scheme by these connected persons have been considered and approved by the Disinterested Shareholders at the previous extraordinary general meeting, the previous A Share class meeting and the previous H Share class meeting held on 29 December 2015. In view of the upcoming expiry of the resolutions in approval of the Proposed Placing and authorisation of the Board to handle matters in relation to the Proposed Placing as considered and approved by the Disinterested Shareholders at the previous extraordinary general meeting, the previous A Share class meeting and the previous H Share class meeting held on 29 December 2015, the Extension Resolutions will be subject to renewal of Shareholders' approval.

As at the Latest Practicable Date, a total of 499 intended participants (of whom four are Directors and two are Supervisors, as disclosed in the circular of the Company dated 14 December 2015) have indicated to participate in the Employee Stock Ownership Scheme. Subsequent to the Price Adjustment and Share Adjustment a result of the 2015 Profits Distribution Plan (as disclosed in the announcement of the Company dated 14 September 2016) and as at the Latest Practicable Date, the interests attributable to the six Connected Participants under the Employee Stock Ownership Scheme will be adjusted to 546,038 A Shares, representing approximately 14.55% of the A Shares available to be subscribed under the Employee Stock Ownership Scheme. Pursuant to Rule 14A.12 of the Listing Rules, as the Employee Stock Ownership Scheme is an employees' share scheme established for a wide scope of participants, and the aggregate interest of the Connected Participants in the Employee Stock Ownership Scheme will be less than 30%, the Employee Stock Ownership Scheme is not deemed as an associate of the Company's connected persons. As a result, the entering into of the Employee Stock Ownership Scheme Subscription Agreement and the Employee Stock Ownership Scheme Supplemental Agreement between the Employee Stock Ownership Scheme and the Company does not constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

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## LETTER FROM ALTUS CAPITAL

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All executive Directors, Mr. Zhang Daiming and Mr. Du Deping, and two non-executive Directors, Mr. Ren Fulong and Mr. Xu Lie, who have indicated their intended participation in the Employee Stock Ownership Scheme (one of the Subscribers in the Proposed Placing), have abstained from voting on the relevant Board resolutions approving the Extension Resolutions. As of the Latest Practicable Date, Mr. Zhang Daiming, an executive Director, owns 11,900 A Shares and none of his associates own any Shares. Mr. Zhang Daiming, an intended participant in the Employee Stock Ownership Scheme which is one of the Subscribers under the Proposed Placing, will not vote on the Extension Resolutions.

Save as disclosed above, none of the Directors have any material interest in the Proposed Placing or are required to abstain from voting on the Board resolutions considering and approving the Extension Resolution.

### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Du Guanhua, Mr. Li Wenming and Mr. Chan Chung Kik, Lewis, has been established to consider the Extension Resolutions, and give advice and recommendation to the Disinterested Shareholders as to (i) whether the Extension Resolutions are fair and reasonable and are in the interests of the Company and the Disinterested Shareholders as a whole; and (ii) how the Disinterested Shareholders should vote in respect of the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting.

### **THE INDEPENDENT FINANCIAL ADVISER**

As the independent financial adviser to the Independent Board Committee and the Disinterested Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Disinterested Shareholders as to (i) whether the Extension Resolutions are fair and reasonable and are in the interests of the Company and the Disinterested Shareholders as a whole; and (ii) how the Disinterested Shareholders should vote in respect of the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting.

We had acted as the independent financial adviser to the Company with regards to the proposed issue and placing of new A Shares and the proposed implementation of Employee Stock Ownership Scheme (including participations in the scheme by connected participants), details of which are set out in the letter from Altus Capital (“**2015 IFA Letter**”) contained in the circular dated 14 December 2015 (“**2015 Circular**”). Save for the aforesaid appointment, we have not acted as the independent financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Extension Resolutions is at market level and not conditional upon successful passing of the resolutions, and that our engagement is on normal commercial terms, we are independent of the Company.

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## LETTER FROM ALTUS CAPITAL

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### **BASIS OF OUR ADVICE**

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our recommendation, we have taken into account the principal factors and reasons set out below:

#### **1. Reasons for and benefits of the implementation of the Employee Stock Ownership Scheme (including participation in the scheme by Connected Participants)**

As described in the 2015 IFA Letter, the Company entered into the Employee Stock Ownership Scheme Subscription Agreement on 8 October 2015, the objectives of the Employee Stock Ownership Scheme were to (i) further improve the Company’s governance structure and establish a sound and comprehensive incentive mechanism for employees; (ii) motivate employees, stabilise the management and key personnel team of the Company; and (iii) improve the Company’s shareholding structure and promote the sustained and healthy development of the Group.

As discussed with the Management, we understand that the objectives of the Employee Stock Ownership Scheme remain unchanged. Given that the abovementioned reasons and benefits are still valid, we continue to believe that the terms of the Employee Stock Ownership Scheme are on normal commercial terms and in the interests of the Company and the Disinterested Shareholders as a whole. As the connected person participation (“**Connected Person Participation**”) forms a part of the Employee Stock Ownership Scheme, we further believe that the terms of the Connected Person Participation are on normal commercial terms and in the interests of the Company and the Disinterested Shareholders as a whole, despite that it is not in the ordinary and usual course of business of the Company.

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## LETTER FROM ALTUS CAPITAL

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### 2. The proposed implementation of the Employee Stock Ownership Scheme by way of placement of A Shares

Reference is made to the key terms of the Proposed Placing of A Shares with respect to the Employee Stock Ownership Scheme set out in the 2015 Circular. Basically, all the key terms (namely (i) class and par value of Shares to be issued; (ii) method and date of issue; (iii) target participants (save for the withdrawal of SKS Assets Management Limited, as disclosed in the announcement of the Company dated 24 March 2016); (iv) lock-up period; (v) dealing restrictions; and (vi) conditions precedent) remain unchanged.

As disclosed in the Circular, if there is any ex-dividend or ex-rights event (such as distribution of dividend, bonus issuance or capitalisation of capital reserves) occurred to the Company between the Price Determination Date and the date of issuance of A Shares under the Proposed Placing, the Subscription Price and the number of A Shares to be issued by the Company under the Proposed Placing shall be adjusted in accordance with the Price Adjustment and the Share Adjustment respectively. Due to a final dividend of RMB0.02 (tax included) per Share for the year ended 31 December 2015 under the 2015 Profit Distribution Plan which was considered and approved at the annual general meeting of the Company on 29 June 2016 (as disclosed in the announcement of the Company dated 14 September 2016), the initial subscription price of the A Shares was adjusted per the provision under the Price Adjustment clause of the Proposed Placing. As a result of the Price Adjustment, the Subscription Price was adjusted from RMB9.36 per new A Share as at the date of the 2015 Circular to RMB9.34 per A Share as at 14 September 2016 (date of announcement of the Company), representing a decrease of approximately 0.21%. Due to the same reason, the maximum number of A Shares to be subscribed for under the Employee Stock Ownership Scheme was adjusted from 3,744,400 new A Shares to 3,752,417 new A Shares, representing an increase of approximately 0.21%, as a result of the provision under the Share Adjustment clause of the Proposed Placing.

We note that (i) the initial Subscription Price of the Proposed Placing had been fairly determined as described in the 2015 IFA Letter; (ii) the abovementioned adjustments were made in accordance with the terms provided in the Proposed Placing; and (iii) in response to the request of CSRC, a supplemental measure in respect of Price Adjustment Mechanism (“**Supplemental Price Adjustment Mechanism**”) was adopted, where in the event that the Subscription Price is less than 70% of the average trading price (the “**20-day Average Trading Price**”) per A Share for the 20 trading days prior to the first day of the Issuance Period (the “**First Issuance Day**”) of the new A Shares under the Proposed Placing, the Subscription Price will be adjusted to a level that is equivalent to 70% of the 20-day Average Trading Price (the 20-Day Average Trading Price will be the quotient of the total transaction value of A Shares for the 20 trading days prior to the First Issuance Day divided by the total trading volume of A Shares for the 20 trading days prior to the First Issuance Day). In addition, all participating employees, including the Connected Participants under the Connected Person Participation, will be subject to identical terms such as Subscription Price as well as lock-up arrangements. Based on the above, we continue to believe that the terms of the Employee Stock Ownership Scheme and the Connected Person Participation have been fairly and reasonably determined.



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## LETTER FROM ALTUS CAPITAL

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### **3. Use of proceeds from the Proposed Placing**

As disclosed in the Circular, the initial maximum number of A Shares to be issued under the Proposed Placing would not exceed 77,000,000 A Shares, subject to Share Adjustment and any adjustment. Following (i) the withdrawal of SKS Assets Management Limited as a subscriber under the Proposed Placing (as disclosed in the announcement of the Company dated 24 March 2016); and (ii) the Share Adjustment due to the 2015 Profit Distribution Plan (as disclosed in the announcement of the Company dated 14 September 2016), the number of A Shares to be issued under the Proposed Placing has been adjusted to 67,143,466 A Shares, representing a decrease of approximately 12.80%.

Taking into account the abovementioned withdrawal and Share Adjustment and the adjusted Subscription Price due to the Price Adjustment, we understand that the total gross proceeds under the Proposed Placing will be reduced from approximately RMB720.72 million to approximately RMB627.12 million, representing a decrease of approximately 12.99%. Notwithstanding that there is a reduction, we are of the view that it does not substantially affect the intended plan for the use of proceeds.

As described in the 2015 Circular, capital raised through the Proposed Placing will be used, among others, to (i) strengthen the Company's capital position in order to enable it to optimise its operations and upgrade infrastructure; and (ii) repay existing bank borrowings in order to improve the Company's debt position and reduce its exposure to financial risk. Hence, we continue to believe that the use of proceeds from the Proposed Placing is in the interests of the Company and the Disinterested Shareholders as a whole.

### **4. Possible dilutive impact of the Proposed Placing in relation to the Employee Stock Ownership Scheme**

As disclosed in the 2015 Circular, the interests to be subscribed by the six Connected Participants under the Employee Stock Ownership Scheme will be equivalent to approximately 544,869 new A Shares, representing 14.55% of the A Shares to be subscribed by the Employee Stock Ownership Scheme. Due to the Price Adjustment and the Share Adjustment as mentioned above and the subsequent withdrawal of six intended participants from the Employee Stock Ownership Scheme, the interests attributable to the six Connected Participants under the Employee Stock Ownership Scheme will be equivalent to approximately 546,038 A Shares, representing 14.55% of the A Shares to be subscribed by the Employee Stock Ownership Scheme.

## LETTER FROM ALTUS CAPITAL

We wish to point out that the adjusted number of new A Shares to be subscribed under the Employee Stock Ownership Scheme amount to 3,752,417 (representing approximately 0.72% of the total issued Shares upon completion of the Proposed Placing assuming no charge in the total issued Shares other than the issuance of A Shares under the Proposed Placing from the Latest Practicable Date and up to the completion of the Proposed Placing), of which the adjusted number of new A Shares to be subscribed by the Connected Participants under the Employee Stock Ownership Scheme amount to 546,038 (representing approximately 0.104% of the total issued Shares as enlarged by the Proposed Placing assuming no charge in the total issued Shares other than the issuance of A Shares under the Proposed Placing from the Latest Practicable Date and up to the completion of the Proposed Placing). Given that the dilutive impact with respect to the Employee Scheme Subscription is immaterial and the Connected Persons Participation is even lower, we therefore consider that it is reasonable to put in place the Employee Stock Ownership Scheme, which is a long-term incentive scheme to motivate the employees of the Group and to enhance their sense of responsibility in respect of their positions held in the Group, and to maintain the stability of the workforce and the effectiveness of strategies implemented by the Company with regard to its operation, as these are in the interests Company and the Disinterested Shareholders as a whole.

### 5. Possible overall dilution effect as a result of the Proposed Placing on the Shareholders

Shareholders	(i) As at the Latest Practicable Date		(ii) Immediately after the completion of the Proposed Placing	
	No. of Shares	% (of all Shares)	No. of Shares	% (of all Shares)
<i>A Shares</i>				
SXPGC	157,587,763	34.46%	157,587,763	30.05%
Mr. Zhang Daiming <sup>Note 1</sup>	11,900	0.003%	11,900	0.002%
Subscribers				
– Employee Stock Ownership Scheme	–	–	3,752,417	0.72%
– SJY Industrial Fund LLP	–	–	21,405,738	4.08%
– BXC PI Fund No. 1	–	–	21,405,738	4.08%
– CBR PI Fund No. 1	–	–	20,579,573	3.92%
Other public A Share Shareholders	149,713,167	32.74%	149,713,167	28.55%
Total number of A Shares	<u>307,312,830</u>	<u>67.20%</u>	<u>374,456,296</u>	<u>71.40%</u>

## LETTER FROM ALTUS CAPITAL

Shareholders	(i) As at the Latest Practicable Date		(ii) Immediately after the completion of the Proposed Placing	
	<i>No. of Shares</i>	<i>% (of all Shares)</i>	<i>No. of Shares</i>	<i>% (of all Shares)</i>
<i>H Shares</i>				
Well Bring Limited <sup>Note 2</sup>	13,686,000	2.99%	13,686,000	2.61%
Public H Share Shareholders	136,314,000	29.81%	136,314,000	25.99%
Total number of H Shares	<u>150,000,000</u>	<u>32.80%</u>	<u>150,000,000</u>	<u>28.60%</u>
Total number of Shares	<u>457,312,830</u>	<u>100.00%</u>	<u>524,456,296</u>	<u>100.00%</u>

*Notes:*

1. Save for Mr. Zhang Daiming whose relevant percentages are rounded to the nearest three decimal places, the percentages shown above are rounded to the nearest two decimal places. Numbers may not add up to 100% due to rounding.
2. Well Bring Limited, a Hong Kong incorporated company, is the indirect wholly-owned subsidiary of 華魯控股有限公司 (Hualu Holdings Group Company Limited\*), the Company's ultimate holding company and the sole shareholder of SXPGC (the Company's direct controlling Shareholder).

As shown in the table above, due to the Proposed Placing, the other public A Share Shareholders' interest in the Company will be diluted from approximately 32.74% to approximately 28.55% and the public H Share Shareholders will be diluted from approximately 29.81% to approximately 25.99%. Although the Employee Stock Ownership Scheme will cause certain dilution to the existing public Shareholders' interest, we continue to believe that is acceptable in view of the overall benefits of the Employee Stock Ownership Scheme. We are also of the view that the Employee Stock Ownership Scheme will have long-term benefits to the Company by motivating the employees of the Group and enhancing their sense of responsibility in respect of their positions held in the Group as well as maintaining the stability of the workforce and the effectiveness of strategies implemented by the Company, which is in the interests Company and the Disinterested Shareholders as a whole.

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## LETTER FROM ALTUS CAPITAL

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### 6. Reasons for and benefits of the Extension Resolutions

Reference is made to the 2015 Circular, the effective period of the Shareholders' resolutions in approval of (i) the Proposed Placing; and (ii) the authorisation granted to the Board to handle matters relating to the Proposed Placing were both considered and passed at the previous extraordinary general meeting, the previous A Share class meeting and the previous H Share class meeting held on 29 December 2015.

As described in the "Letter from the Board" of the Circular, the Company's application for the Proposed Placing is still in progress and pending the approval of the CSRC and the effective period of the Shareholders' resolutions in approval of (i) the Proposed Placing; and (ii) the authorisation granted to the Board to handle matters relating to the Proposed Placing will expire on 28 December 2016. As discussed with the Management, we note that the Company has received 中國證監會行政許可申請受理通知書 (Acceptance Notice of the Application for Administrative Permission\*) from the CSRC for granting the administrative permission for processing the application for the Proposed Placing and 中國證監會行政許可項目審查反饋意見通知書 (Feedback on the Review of Administrative Permission Items\*) for reviewing, vetting, commenting and raising queries in respect of the Proposed Placing. The Company and its sponsoring institution(s) under the Proposed Placing have submitted replies dated 28 September 2016 and supplemental replies dated 1 December 2016 to the feedbacks of the CSRC. As of the Latest Practicable Date, the Company has not yet received from the CSRC further feedback or approval on the Proposed Placing. Having consulted its sponsoring institution(s) under the Proposed Placing, the Company was informed that it would not be possible for the Company to anticipate whether there would be further feedback from the CSRC and when the approval will be granted. In order to allow time for the Company to obtain the approval for the Proposed Placing, the only and legal proper way for the Company is to preserve the validity of the previously approved resolutions by means of seeking the Disinterested Shareholders' approval to the Extension Resolutions.

In view of the above, we are of the view that the Extension Resolutions are in the interests of the Company and the Disinterested Shareholders as a whole, and are fair and reasonable so far as the Disinterested Shareholders are concerned.

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## LETTER FROM ALTUS CAPITAL

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### RECOMMENDATION

Having considered the above principal factors, we are of the view that the Extension Resolutions are in the interests of the Company and the Disinterested Shareholders as a whole, and are fair and reasonable so far as the Disinterested Shareholders are concerned.

Accordingly, we would recommend the Independent Board Committee to advise the Disinterested Shareholders, to vote in favour of the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting.

Yours faithfully,  
For and on behalf of  
**Altus Capital Limited**  
**Jeanny Leung**  
*Executive Director*

*Ms. Jeanny Leung (“Ms. Leung”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 25 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent adviser in various corporate finance advisory transactions.*

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters of which omission would make any statement herein or this circular misleading.

**2. SHARE CAPITAL**

As at the Latest Practicable Date, the total number of issued Shares was 457,312,830 comprising 307,312,830 A Shares listed on the SZSE and 150,000,000 H Shares listed on the SEHK.

**3. INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE**

As at the Latest Practicable Date, the following Director/chief executives held Shares:

<b>Name</b>	<b>Number of A Shares</b>	<b>Percentage of the total issued Shares (%)</b>
Zhang Daiming	11,900	0.003 <sup>Note</sup>

*Note:* Rounded to the nearest three decimal places.

- (a) none of the Directors, Supervisors and chief executives of the Company was interested in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which (i) were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the SEHK;
- (b) none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting at the date of this circular, which was significant in relation to the business of the Group;

- (c) none of the Directors, Supervisors and chief executives of the Company had any direct or indirect interest in any assets which had since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (d) none of the Directors or their respective associates had any interest in any company or business which competes or may compete with the businesses of the Group.

#### 4. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and chief executives of the Company, the persons, other than a Director or chief executive of the Company, who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is directly or indirectly, interested in 10% or more of the nominal value of any class of Shares carrying rights to vote in all circumstances at general meetings of the Company were as follows:

No.	Name of Shareholder	Class of Shares	Number of Shares held	Percentage of the total issued Shares (%)
1.	SXPGC	A Shares	157,587,763	34.46
2.	HKSCC (Nominees) Limited	H Shares	148,883,698	32.56

SXPGC is a wholly state-owned company. Mr. Zhang Daiming is the chairman of the Company and is also the chairman of SXPGC. Mr. Ren Fulong being a Director of the Company is also a director and a general manager of SXPGC. Mr. Xu Lie being a Director of the Company is also a director of SXPGC.

#### 5. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

**6. LITIGATION**

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration or claim of material importance and there is no litigation or arbitration or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

**7. CONSENT OF EXPERT**

The following expert has given and has not withdrawn its written consent to the issuance of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears:

<b>Name</b>	<b>Qualifications</b>
Altus Capital	a licensed corporation to carry out types 4, 6 and 9 regulated activities under the SFO

To the best knowledge of the Directors, as at the Latest Practicable Date, Altus Capital did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

To the best knowledge of the Directors, as at the Latest Practicable Date, Altus Capital did not have any direct or indirect interest in any asset which had been acquired or disposed of by or leased to the Company or were proposed to be acquired or disposed of by or leased to the Company since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up.

**8. SERVICE CONTRACT**

As at the Latest Practicable Date, none of the Directors and Supervisors had entered into, or proposed to enter into, a service contract with the Company or any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation, other than statutory compensation.

**9. MATERIAL INTEREST**

As at the Latest Practicable Date, save as disclosed, none of the Directors had a material interest in the Proposed Placing.



As at the Latest Practicable Date, none of the Company, its holding company and fellow subsidiaries of the controlling company of its controlling shareholder had entered into any contracts in relation to the Group's business in which any Directors or Supervisors had a material interest, whether directly or indirectly.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

#### **10. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business which competes or was likely to compete, either directly or indirectly, with the business of the Group.

#### **11. CONTRACTS REFERRED TO IN THIS CIRCULAR**

Set out below are the contracts referred to in this circular and which are material for the purposes of the Extension Resolutions:

- (a) SJY Industrial Fund LLP Subscription Agreement and SJY Industrial Fund LLP Supplemental Agreement;
- (b) BXC Subscription Agreement and BXC Supplemental Agreement;
- (c) CBR Subscription Agreement and CBR Supplemental Agreement; and
- (d) Employee Stock Ownership Scheme Subscription Agreement and Employee Stock Ownership Scheme Supplemental Agreement.

#### **12. VOTE BY POLL**

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of Shareholders of the Company at the EGM shall be taken by poll.

#### **13. MISCELLANEOUS**

- (a) As of the Latest Practicable Date, the secretary of the Company is Mr. Cao Changqiu, who graduated from Ocean University of China (formerly known as 青島海洋大學 (Ocean University of Qingdao\*)) (major in economic management) in 1991.

- (b) As of the Latest Practicable Date, the share registrar of the Company in Hong Kong is Hong Kong Registrars Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) In case of any inconsistencies, save and except for the English translations of the Chinese names or words marked with "\*", the English text of this circular shall prevail over the Chinese text.

#### **14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Charltons, being the Hong Kong legal advisers to the Company, at 12th Floor, Dominion Centre, 43-59 Queen's Road East, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the EGM and the H Share Class Meeting:

- (a) this circular;
- (b) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" of this circular;
- (c) the letter from the Independent Board Committee to the Disinterested Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;
- (d) the letter from Altus Capital to the Independent Board Committee and the Disinterested Shareholders, the text of which is set out in the section headed "Letter from Altus Capital" of this circular;
- (e) the written consent from Altus Capital referred to in the paragraph headed "7. Consent of Expert" in this appendix;
- (f) the contracts referred to in the paragraph headed "11. Contracts referred to in this circular" in this appendix; and
- (g) the memorandum and articles of association in effect as of the Latest Practicable Date.