THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, 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.

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)

CONNECTED TRANSACTION
ACQUISITION OF TARGET EQUITY IN DSM ZIBO

Independent Financial Adviser
to the Independent Board Committee and the Disinterested Shareholders

中 孚 資 本 有 限 公 司

HOLOGRAM CAPITAL LIMITED

A letter from the Board is set out on pages 1 to 7 of this circular. A letter from the Independent Board Committee containing its recommendation to the Disinterested Shareholders is set out on page 8 of this circular.

A letter from Hologram Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Disinterested Shareholders is set out on pages 9 to 23 of this circular.

A notice convening the EGM to be held at the conference room of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC on 20 February 2019, Wednesday at 2:00 p.m. and the proxy form and reply slip in relation to the EGM were despatched by the Company on 4 January 2019 and also published and available for downloading on the websites of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk and of the Company at http://www.xhzy.com.

Whether or not you intend to attend the EGM, we encourage you to complete and return the proxy form 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 such meeting (or any adjournments thereof). Completion and return of the proxy form will not preclude you from attending and voting in person at the abovementioned meeting or any adjournment thereof (as the case may be) should you so wish. Shareholders who intend to attend the EGM should also complete and return the reply slip in accordance with the instructions printed thereon.

28 January 2019

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In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

"A Share(s)"	A Share(s) of RMB1.00 each in the capital of the Company which is/are listed and traded on the Shenzhen Stock Exchange
"Aggregation"	Aggregation of the DSM Zibo Acquisition with the Xincat Acquisition and Wanbo Capital Contribution dated 6 November 2018 and 30 November 2018 and of which the counterparties were HHGC and SXPGC, indirect and direct controlling shareholders of the Company respectively
"Agreement"	the Equity Transfer Agreement dated 20 December 2018 entered into between the Company as the purchaser and SXPGC as the Vendor of the Target Interest at the Consideration subject to and conditional on the Approval
"Appraised Value"	the value of 100% equity interest of DSM Zibo as at the Benchmark Date appraised under the Valuation Report
"Approval"	the approval of the DSM Zibo Acquisition by the Disinterested Shareholders
"associate"	has the meaning ascribed to it under the Listing Rules
"Benchmark Date"	28 February 2018, against which the valuation of the equity interest of DSM Zibo was benchmarked in the Valuation Report
"Board"	the board of Directors
"Company"	Shandong Xinhua Pharmaceutical Company Limited (山東新華製藥股份有限公司), a joint stock limited company established in the PRC with the H Shares and A Shares thereof listed on the Hong Kong Stock Exchange (stock code: 0719) and the Shenzhen Stock Exchange (stock code: 000756) respectively
"connected person"	has the meaning ascribed to it under the Listing Rules
"connected transaction"	has the meaning ascribed to it under the Listing Rules

"Consideration"	RMB63,030,660, being the consideration payable by the Company for the Target Interest pursuant to the Agreement subject to and conditional on the Approval
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"Disinterested Shareholders"	Shareholders, other than SXPGC and Well Bring Limited, who are not required to abstain from voting on the resolutions on the DSM Zibo Acquisition
"DSM Zibo"	燦盛製藥(淄博)有限公司(Centrient Pharmaceuticals (Zibo) Co. Ltd*), (formerly known as 中化帝斯曼製藥(淄博)有限公司(DSM Sinochem Pharmaceuticals (Zibo) Co. Ltd*) to which the Valuation Report issued by the Valuer (content set out in Appendix I to this circular) and the executed Agreement referred and with its current name adopted by the business license issued by the State Administration for Industry and Commerce on 2 January 2019), a company incorporated in the PRC with limited liability
"DSM Zibo Acquisition"	Acquisition of the Target Interest in DSM Zibo by the Company from SXPGC pursuant to the Agreement subject to and conditional on the Approval
"EGM"	the extraordinary general meeting of the Company to be held on 20 February 2019
"ESOS"	the employee stock ownership scheme of the Company approved by Shareholders at the general meeting dated 29 December 2015
"Group"	the Company and its subsidiaries
"H Share(s)"	H Share(s) of RMB1.00 each in the capital of the Company which is/are listed and traded on the Hong Kong Stock Exchange
"HHGC"	Hualu Holdings Group Company Limited (華魯控股集團有限公司), a wholly state-owned company, the holding company of SXPGC and controlling shareholder of the Company

"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"holding company"	has the meanings ascribed to it under the Listing Rules
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	the independent board committee of the Company comprising the independent non-executive Directors constituted for the purpose of considering the connected transaction in respect of the DSM Zibo Acquisition
"Independent Financial Adviser"	Hologram Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders on the connected transaction in respect of the DSM Zibo Acquisition
"Latest Practicable Date"	21 January 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Price"	the listing price in respect of the Target Interest at which the Tender started
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Option"	the right to acquire one new A Share at an exercise price of RMB5.98 pursuant to the Share Option Scheme
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SDPREC"	山東產權交易中心 (Shandong Property Right Exchange Centre*)

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	A Share(s) and/or H Share(s)
"Share Option Scheme"	the share option scheme of the Company approved and adopted on 28 December 2018 at the extraordinary general meeting and the respective class meetings of the holders of A Shares and H Shares
"Shareholder(s)"	holder(s) of Share(s)
"Supervisors"	the supervisors of the Company
"SXPGC"	Shandong Xinhua Pharmaceutical Group Company Limited* (山東新華醫藥集團有限責任公司), a wholly state-owned company which as of the Latest Practicable Date owned 32.94% of the total issued Shares of the Company and was the immediate controlling shareholder and single largest Shareholder thereof
"Target Interest"	30% interest in the existing equity capital of DSM Zibo
"Tender"	the open tender in respect of the Target Interest put onto SDPREC by the Vendor
"Valuation Report"	the valuation report dated 8 May 2018 issued by the Valuer in appraisal of the value of 100% equity interest of DSM Zibo based on the assets, liabilities and net assets of DSM Zibo by way of asset-based approach commissioned by the Vendor for the purpose of determining the Listing Price at the Tender of which the content is set out in Appendix I to this circular
"Valuer"	山東天健興業資產評估有限公司 (Shandong Tian Jian Xing Ye Asset Valuation Company Limited*), a qualified valuation institution in the PRC and the valuer of the equity interest of DSM Zibo
"Vendor"	SXPGC, the owner of the Target Interest and the vendor under the Agreement

"Wanbo Capital Contribution"	the capital contribution of RMB19,582,300 by the Company into 山東新華萬博化工有限公司 (Shandong Xinhua Wanbo Chemical Industrial Co., Ltd*) by an agreement dated 30 November 2018 entered into with its sole shareholder SXPGC in acquisition of 40% of the equity capital of Shandong Xinhua Wanbo Chemical Industrial Co., Ltd enlarged as a result of the capital contribution, of which the details were disclosed in the announcement of the Company of even date as the agreement
"Xincat Acquisition"	Acquisition by the Company of 40% of the equity interest of 山東淄博新達製藥有限公司(Shandong Zibo Xincat Pharmaceutical Company Limited*), a company incorporated in the PRC with limited liability, from HHGC at a consideration of RMB70,673,800 dated 6 November 2018, of which the details were disclosed in the announcement of the Company of even date
"Zibo"	Zibo City, Shandong Province, 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.*

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

Non-executive Directors:
Mr. Ren Fulong
Mr. Xu Lie
Mr. Zhao Bin

Independent Non-executive Directors:
Mr. Li Wenming
Mr. Du Guanhua
Mr. Lo Wah Wai

Registered Address:
Chemical Industry Area of Zibo Hi-tech
Industry Development Zone
Zibo City
Shandong Province, the PRC

28 January 2019

To Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION
ACQUISITION OF TARGET EQUITY IN DSM ZIBO

INTRODUCTION

Reference is made to the Announcement in respect of the Agreement which is subject to and conditional on the Approval and the DSM Zibo Acquisition contemplated thereunder.

An Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Disinterested Shareholders on the DSM Zibo Acquisition and the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Disinterested Shareholders in connection therewith.

The purpose of this circular is to provide you with the relevant information for making informed decision on the resolution in respect of the DSM Zibo Acquisition to be proposed at the EGM.

DSM ZIBO ACQUISITION AND THE AGREEMENT

On 5 December the Board considered and approved the proposed submission of an application to bid for the Target Interest being 30% interest in the equity capital of DSM Zibo put onto Tender on SDPREC by SXPGC. On 20 December 2018, it was confirmed that the Company has won the Tender at the Listing Price of RMB63,030,660. As a result, the Company as the purchaser and SXPGC as the Vendor has entered into the Agreement of which the principal terms are set out below:

Date

20 December 2018
(after the trading hour of the Hong Kong Stock Exchange)

Parties

1. The Company (as the purchaser); and

2. the Vendor

Subject matter

The Company agreed to purchase and the Vendor agreed to sell the Target Interest in DSM Zibo free of encumbrances owned by the Vendor.

Conditions and Closing

The Agreement shall take effect on due execution by the parties thereto, affixation of SDPREC's stamp and the Approval. As of the Latest Practicable Date, only the Approval is outstanding.

The Vendor shall, with the necessary cooperation of the Company, proceed to the completion of the registration and/or filings with the competent authorities within 10 business days from SDPREC's issuance of Documentary Proof of the Property Right Transaction upon the Agreement's taking effect. Upon completion of the registration/filings, the Vendor shall hand over to the Company all and any assets, certificates of titles, chops and stamps, financial statements, lists, documents and information in respect of DSM Zibo.

Consideration and Basis

The Consideration in respect of the transfer of the Target Interest is RMB63,030,660. Within 5 business days from the Agreement's taking effect, the Consideration shall be paid in cash one-off and the security deposit of RMB6.4 million paid as a condition for entering into the Tender as a potential qualified transferee will be counted in and applied to set off part of the Consideration. Subject to the Approval, the Consideration will be paid up with the internal resources of the Group.

The Consideration is the Listing Price at which the Tender started. As far as the Company is aware, the Listing Price was set by the Vendor with reference to the valuation the Valuer, a qualified valuation institution in the PRC.

According to the Valuation Report, as at the Benchmark Date, the Appraised Value of 100% equity interest of DSM Zibo was RMB210,100,000 based on the assets and liabilities and net assets of DSM Zibo by way of asset-based valuation. The Listing Price of the Tender being also the Consideration under the Agreement represents 30% of the Appraised Value.

The content of the Valuation Report is set out in Appendix I to this circular.

Tax, Fees and Liabilities

Any and all of DSM Zibo's interests in debts accrued and actual and contingent liabilities incurred prior to the closing of the transfer of the Target Interest shall remain those of DSM Zibo and shall not be attributable to the Vendor as the outgoing shareholder.

A party to the Agreement shall be liable to the other party for any breach of the Agreement it commits. Specifically, upon the Agreement's taking effect: (a) failure of closing the transfer of the Target Interest by the Vendor or failure of payment of the Consideration by the Company within the respective agreed periods as set out hereinbefore shall result in a liquidated damages of an amount equivalent to 0.1% of the Consideration daily payable to the party not in breach; and (b) omission or non-disclosure of material items including assets and liabilities of DSM Zibo which should incur material adverse impacts on DSM Zibo or affect the evaluated price of Target Interest for over 30% shall entitle the Company to rescind the Agreement and to 1% of the amount of the Consideration as liquidated damages payable by the Vendor.

Pursuant to the conditions set by SDPREC in respect of the Tender, the Company has made covenants including: (a) the profits of DSM Zibo prior to the closing of the transfer of Target Interest shall be attributable to the Vendor whereas any losses incurred between the Benchmark Date and the transfer of the Target Interest shall be borne by DSM Zibo as an independent entity with limited liability rather than by the Vendor as its stockholder; (b) the fees incurred in the transfer of Target Interest shall be borne by the Company; and (c) the Company has prior to the transaction completed its due diligence exercise.

REASONS FOR AND BENEFITS OF THE DSM ZIBO ACQUISITION

The DSM Zibo Acquisition is expected to carry forward, inter alia, such tactical goals of the Company including further extending the industry value chain of the Group, stabilising the supply of part of the raw materials required for the Group's production of pharmaceutical preparations, reducing the amount of continuing connected transactions with its controlling shareholder group (with the meanings ascribed thereto under the Listing Rules) and further lowering the transaction costs incurred in sourcing and procurement in relation thereto, enhancement of the techniques of the Group, and as a result strengthening of the competitiveness of the Group.

The Directors have considered and reviewed the terms of the DSM Zibo Acquisition and considered it fair, reasonable and was entered into on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

Mr. Zhang Daiming, Mr. Ren Fulong, Mr. Xu Lie, Mr. Zhao Bin, directors of the Company, have by virtue of their respective directorships or capacities as a member of the management of the Vendor or its holding company abstained from voting on the DSM Zibo Acquisition. Save as disclosed above, the Company is not aware of any other Directors who has a material interest therein.

INFORMATION OF THE TARGET COMPANY AND THE PARTIES TO THE AGREEMENT

The Company is a joint stock limited company incorporated in the PRC with its H Shares and A Shares listed on the Hong Kong Stock Exchange and Shenzhen Stock Exchange respectively. The Company is principally engaged in the development, manufacture and sale of bulk pharmaceuticals, preparations and chemical products.

The Vendor is a state-owned enterprise established in the PRC principally engaged in investments in the pharmaceutical industry and chemical production in relation thereto, packaging and supply of chemical engineering equipment and has been interested in the Target Interest as a founding member of DSM Zibo.

DSM Zibo is a company incorporated in the PRC with limited liability and its principal businesses are manufacturing chemical raw material products including Cefalexi, Cefradine, Cefadroxil, Cefaclor and Cefprozil and sale of the products manufactured. According to the clean, unqualified audit report of DSM Zibo, its audited financial figures were as follows:

(Rounded off to RMB0,000)

Item / Period	Total assets	Total liabilities	Owner's Equity	Operating Income	Operating profits	Net Profits (before income tax)	Net profits (after income tax)	Net cash flow from operating activities
Year ended 31 December 2015	36,204	21,221	14,983	32,765	644	779	511	2,165
Year ended 31 December 2016	42,656	27,595	15,061	34,340	-27	120	78	349
Year ended 31 December 2017	38,316	23,033	15,282	33,903	342	319	221	1,144
Two months ended 28 February 2018	39,419	24,125	15,294	6,782	21	18	12	1,338

To the best of the knowledge, information and belief of the Company after all reasonable enquiries, as of the Latest Practicable Date there has been no material event or change in the abovementioned financial performance and position of DSM Zibo that is expected to affect the DSM Zibo Acquisition.

As at the Latest Practicable Date, the equity interest in DSM Zibo is 70% owned by Gist-Brocades International B.V., a corporation incorporated in the Netherlands and, save for its equity interest in DSM Zibo which makes it a joint venture partner of the Vendor, an independent third party from the Company, and the 30% Target Interest owned by the Vendor, controlling shareholder of the Company. Subject to the Approval, on completion of the DSM Zibo Acquisition DSM Zibo will not be a subsidiary of the Company and its assets will not be consolidated in the accounts of the Group.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Vendor is the controlling shareholder of the Company and all the applicable percentage ratios (with the meanings ascribed thereto under the Listing Rules) are more than 0.1% and less than 5% in respect of the DSM Zibo Acquisition on a stand-alone basis but one or more of the applicable percentage ratios is 5% or more but less than 25% in Aggregation with the Xincat Acquisition and Wanbo Capital Contribution (as disclosed in the announcements of the Company dated 6 November 2018 and 30 November 2018 respectively) of which both were transacted within a 12 month period herewith with the controlling shareholder group as the counterparties. The DSM Zibo Acquisition on Aggregation basis therefore constitutes: (i) a connected transaction (with the meaning ascribed thereto under the Listing Rules) of the Company and is subject to the requirements of reporting, announcement, circular, independent financial advice and disinterested shareholders' approval under Chapter 14A of the Listing Rules; and (ii) a discloseable transaction under Chapter 14 of the Listing Rules.

EGM

The DSM Zibo Acquisition is subject to the approval of the Disinterested Shareholder by way of ordinary resolutions at the EGM. SXPGC and Well Bring Limited, the Vendor and the immediate controlling shareholder of the Company and an indirect subsidiary of the Vendor's holding company interested in 32.94% and 2.86% of the total issued Shares respectively as of the Latest Practicable Date, shall abstain from voting on the DSM Zibo Acquisition.

To the best knowledge and belief of the Directors, save for SXPGC and Well Bring Limited, no other Shareholders are required to abstain from voting on the DSM Zibo Acquisition at the EGM under the Listing Rules.

A notice convening the EGM to be held at the conference room of the Company at No. 1 Lutai Ave., Hi-tech District, Zibo City, Shandong Province, PRC on Wednesday, 20 February 2019 at 2:00 p.m. and the proxy form and reply slip in relation to the EGM were despatched by the Company on 4 January 2019 and published and available for downloading on the websites of Hong Kong Stock Exchange at www.hkex.com.hk and of the Company at http://www.xhzy.com. As disclosed in the EGM notice, for the purpose of determining the H Shareholders entitled to attend and vote at the EGM, the register of members of the H Shares of the Company has been scheduled to close from 19 January 2019 to 20 February 2019 (both days inclusive), during which no transfer of H Share will be registered. Shareholders whose names appear on the register of members of the H Shares of the Company kept with the Hong Kong Registrars Limited at 4:30 p.m. on Friday, 18 January 2019 are entitled to attend the EGM. Whether or not you intend to attend, we encourage you to complete and return the proxy form 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 (or any adjournment thereof). For the corresponding arrangements applicable to the A Shareholders, please refer to the meeting notice to A Shareholders with which the relevant form of proxy and reply slip were enclosed, as published by the Company on the website of the Shenzhen Stock Exchange on 4 January 2019.

RECOMMENDATIONS

The Board considers that the proposed resolution set out above are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that Shareholders eligible to vote at the EGM to attend and vote in favour of the resolution.

Hologram Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and Disinterested Shareholders on the connected transaction in respect of the DSM Zibo Acquisition. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Disinterested Shareholders is set out on pages 9 to 23 of this circular.

The Independent Board Committee, having taken into account the advice of and the principal factors and reasons considered by the Independent Financial Adviser and the interest of the Disinterested Shareholders, considers the DSM Zibo Acquisition fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee would recommend the Disinterested Shareholders to vote in favour of the resolution at the EGM and approve the DSM Zibo Acquisition. A letter from the Independent Board Committee containing its recommendation is set out on page 8 of this circular.

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

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)

28 January 2019

To the Disinterested Shareholders

Dear Sir or Madam,

We have been appointed as members of the Independent Board Committee to advise the Disinterested Shareholders of the Company on the connected transaction in respect of the DSM Zibo Acquisition, of which details are set out in the letter from the Board contained in the circular of the Company (the "**Circular**") of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the letter from the Board and the advice of Hologram Capital Limited in its capacity as the Independent Financial Adviser on whether the connected transaction in respect of the DSM Zibo Acquisition are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole, as set out in the letter from the Independent Financial Adviser and in the Circular.

Having taken into account the advice of and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter and the interests of the Disinterested Shareholders, we consider the connected transaction in respect of the DSM Zibo Acquisition is in the ordinary and usual course of the Group, the terms thereof fair and reasonable insofar as the Company and the Disinterested Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Disinterested Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the DSM Zibo Acquisition.

The Independent Board Committee
Mr. Du Guanhua Mr. Li Wenming Mr. Lo Wah Wai
Independent non-executive Directors

The following is the full text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Disinterested Shareholders in relation to the connected transaction, which has been prepared for the purpose of inclusion in this circular.

中孚資本有限公司
HOLOGRAM CAPITAL LIMITED

Hologram Capital Limited
Room 1901, 19/F., Office Plus @Wan Chai
303 Hennessy Road, Hong Kong
中孚資本有限公司
香港灣仔軒尼詩道303號
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28 January 2019

To the Independent Board Committee and the Disinterested Shareholders of Shandong Xinhua Pharmaceutical Company Limited

Dear Sir/Madam,

CONNECTED TRANSACTION
ACQUISITION OF TARGET EQUITY IN DSM ZIBO

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and Disinterested Shareholders in respect of the connected transaction contemplated under the Agreement, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular to the Shareholders dated 28 January 2019 (the "**Circular**"), of which this letter forms part. Terms used herein have the same meanings as defined elsewhere in the Circular unless the context require otherwise.

On 5 December 2018, the Board considered and approved the proposed submission of an application to bid for the Target Interest being 30% interest in the equity capital of DSM Zibo put onto Tender on SDPREC by SXPGC. On 20 December 2018, it was confirmed that the Company has won the Tender at the Listing Price of RMB63,030,660. As a result, the Company as the purchaser and SXPGC as the Vendor has entered into the Agreement, pursuant to which the Company agreed to purchase and the Vendor agreed to sell the Target Interest in DSM Zibo free of encumbrances owned by the Vendor.

As at the Latest Practicable Date, the Vendor is the controlling shareholder of the Company and all the applicable percentage ratios (as defined in the Listing Rules) are more than 0.1% and less than 5% in respect of the DSM Zibo Acquisition on a stand-alone basis but one or more of the applicable percentage ratios is 5% or more but less than 25% in Aggregation with the Xincat Acquisition and Wanbo Capital Contribution (details disclosed in the announcements of the Company dated 6 November 2018 and 30 November 2018 respectively) of which both were transacted within a 12 month period herewith. The DSM Zibo Acquisition on Aggregation basis therefore constitutes a connected transaction of the Company and is subject to the requirements of reporting, announcement, and Disinterested Shareholders' approval under Chapter 14A of the Listing Rules.

Mr. Zhang Daiming, Mr. Ren Fulong, Mr. Xu Lie, Mr. Zhao Bin, being the Directors, have by virtue of their respective directorships or capacities as a member of the management of the Vendor or its holding company abstained from voting on the Board decision regarding the DSM Zibo Acquisition. Save as disclosed above, the Company is not aware of any other Directors who has a material interest therein.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Du Guanhua, Mr. Li Wenming and Mr. Lo Wah Wai, has been established to advise the Disinterested Shareholders on the DSM Zibo Acquisition.

We have been approved and appointed by the Independent Board Committee to advise the Independent Board Committee and the Disinterested Shareholders as to (i) whether the terms of the Agreement are in the ordinary course of business of the Group, on normal commercial terms, fair and reasonable so far as the Disinterested Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole; and (ii) whether the Disinterested Shareholders should vote in favour of the Agreement and the transaction contemplated thereunder at the EGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. Save for this appointment as the Independent Financial Adviser in respect of the connected transaction and the appointment as an independent financial adviser to the Company in respect of the continuing connected transactions as announced by the Company on 22 October 2018, there were no other engagements between us and the Company or any other parties to the Agreement in the last two years. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefit from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Agreement. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, amongst others, the announcement of the Company dated 20 December 2018 in relation to the Agreement and the transaction contemplated thereunder, the Valuation Report as at 8 May 2018, the annual reports of the Company for the years ended 31 December 2016 and 2017 (the "**Annual Report 2016**" and "**Annual Report 2017**" respectively), the interim reports of the Company for the six months ended 30 June 2017 and 2018 (the "**Interim Report 2017**" and "**Interim Report 2018**" respectively), the audited accounts of DSM Zibo for the year ended 31 December 2017 and the two months ended 28 February 2018 and have enquired with and reviewed the information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company and the management of the Group. We have also enquired with the Valuer in respect of the valuation of the equity interest of DSM Zibo. Save and except for the review of the Valuation Report as set out in Appendix I to the Circular, we have not made any independent evaluation or appraisal of the assets and liabilities of DSM Zibo and we have not been furnished with any such evaluation or appraisal. Since we are not experts in the valuation of businesses or companies, we have relied solely on the Valuation Report for the Appraised Value.

We have relied on the statement, information and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information, opinion and representations contained or referred to in the Circular and all statement, information and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so at the date hereof. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respect and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We relied on the Company that it has provided us sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group, parties to the Agreement or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in the market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to consider events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is our responsibility to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and Disinterested Shareholders, we have taken into consideration of the following principal factors and reasons:

1 Information on the Group

The Company is a joint stock company established under the laws of the PRC with limited liability, of which the H Shares and A Shares are listed on the Main Board of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange respectively. The Group principally engages in the development, manufacture and sales of bulk pharmaceuticals, preparations and chemical products.

Set out below are selected information from the consolidated financial results of the Group for (i) the years ended 31 December 2016 and 2017 ("**FY2016**" and "**FY2017**" respectively) as extracted from the Annual Report 2016 and Annual Report 2017; and (ii) the six months ended 30 June 2017 and 2018 ("**1H17**" and "**1H18**" respectively) as extracted from the Interim Report 2017 and Interim Report 2018:

	FY2016	FY2017	1H17	1H18
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Operating income	**4,015**	**4,516**	**2,403**	**2,688**
Chemical bulk drugs	1,770	1,965	1,050	1,174
Preparations	1,748	1,982	1,067	1,183
Medical intermediaries and other products	497	569	286	331
Profit/(Loss) attributable to the Shareholders	**122**	**210**	**107**	**123**

	As at 31 December		As at 30 June
	2016	**2017**	**2018**
	(Audited)	*(Audited)*	*(Unaudited)*
	(RMB million)	*(RMB million)*	*(RMB million)*
Cash and cash equivalents	493	683	826
Total assets	4,723	5,274	5,672
Total liabilities	2,643	2,694	2,995
Net assets attributable to the Shareholders	1,988	2,480	2,536

FY2017

As depicted by the above table, the Group recorded an increase of approximately 12.47% in operating income from approximately RMB4,015 million for FY2016 to approximately RMB4,516 million for FY2017. The profit attributable to the Shareholders increased from approximately RMB122 million for FY2016 to approximately RMB210 million for FY2017, representing an increase of approximately 71.42%. As disclosed in the Annual Report 2017, the prime factors causing the increase are that (i) the Group actively seized market opportunities and developed the market for itself, consolidated the market position of its products and further expanded the sales volume, (ii) the price of main products increased; and (iii) the Group continued to deepen its research on technological breakthrough in order to reduce production costs.

As at 31 December 2017, the Company recorded cash and cash equivalents, total assets and net assets attributable to the Shareholders of approximately RMB683 million, RMB5,274 million and RMB2,480 million respectively, representing increases of approximately 38.49%, 11.66% and 24.72% respectively as compared to the corresponding figures as at 31 December 2016. Such increases were attributable to the completion of non-public issuance and placing of A Shares and the operating profits generated for FY2017. As at 31 December 2017, the total liabilities of the Group amounted to approximately RMB2,694 million, representing an increase of 1.92% as compared to that of 31 December 2016.

1H18

As shown in the above table, the Group recorded an increase of approximately 11.83% in operating income from approximately RMB2,403 million for 1H17 to approximately RMB2,688 million for 1H18. The profit attributable to the Shareholders increased from approximately RMB107 million for 1H17 to approximately RMB123 million for 1H18, representing an increase of approximately 15.54%. The increase was mainly due to the increase in both sales volume and sales prices.

As at 30 June 2018, the Company recorded total assets, total liabilities and net assets attributable to the Shareholders of approximately RMB5,672 million, RMB2,995 million and RMB2,536 million respectively. No material changes in the financial position of the Group during such period.

We noted that the chemical bulk drugs and preparation industry segments are the main income contributors of the Group, which in aggregate contributed approximately 87.4% and 87.7% of the total operating income of the Group for FY2017 and 1H18 respectively. We consider that the business activities in relation to the chemical bulk drugs and preparation industries are in the ordinary and usual course of business of the Group.

We noted from the Annual Report 2017 that (i) the continuous deepening of reform of pharmaceutical and healthcare system provides additional opportunities for accelerated development; (ii) the Company will put greater effort in development of bulk drugs and accelerate the implementation of its greater preparations strategy; and (iii) the rising cost of procurement is one of the factors which has hampered the profitability of the Company. Accordingly, we believe the entering into of the Agreement can enhance the growth and profitability of the Group in the long run by, among other things, securing a steady supply of chemical products and raw materials and lowering of the transaction costs, and we are of the view that the Agreement and the transaction contemplated thereunder are in the interest of the Company and its Shareholders as a whole.

2 Information on the Vendor and DSM Zibo

According to the Board Letter, the Vendor is the controlling shareholder of the Company and a state-owned enterprise established in the PRC principally engaged in investments in the pharmaceutical industry and chemical production in relation thereto, packaging and supply of chemical engineering equipment and has been interested in the Target Interest as a founding member of DSM Zibo.

As set out in the Board Letter, the equity interest in DSM Zibo is 70% owned by Gist-Brocades International B.V., a corporation incorporated in the Netherlands and, save for its equity interest in DSM Zibo which makes it a joint venture partner of the Vendor, an independent third party from the Company, and the 30% Target Interest owned by the Vendor, controlling shareholder of the Company. Subject to the Approval, on completion of the DSM Zibo Acquisition, DSM Zibo will not be a subsidiary of the Company and its assets will not be consolidated in the accounts of the Group.

Set out below are the summary of the audited financial information of DSM Zibo for the year ended 2017 and the two months ended 28 February 2018:

	Year ended 31 December 2017 *(Audited)* *(RMB0,000)*	**Two months ended 28 February 2018** *(Audited)* *(RMB0,000)*
Operating income	33,903	6,782
Net profit before taxation	319	18
Net profit after taxation	221	12
Total assets	38,316	39,419
Total liabilities	23,033	24,125
Net assets	15,282	15,294

To the best of the knowledge, information and belief of the Company after all reasonable enquiries, as of the Latest Practicable Date there has been no material event or change in the abovementioned financial performance and position of DSM Zibo that is expected to affect the DSM Zibo Acquisition.

3 Background of and reasons for the DSM Zibo Acquisition

3.1 Background of the DSM Zibo Acquisition

On 5 December 2018, the Board considered and approved the proposed submission of an application to bid for the Target Interest being 30% interest in the equity capital of DSM Zibo put onto Tender on SDPREC by SXPGC. On 20 December 2018, it was confirmed that the Company has won the Tender at the Listing Price of RMB63,030,660.

We note that, with reference to the Law of the People's Republic of China on the State-owned Assets of Enterprises (《中華人民共和國企業國有資產法》), as the Vendor is a state-owned enterprise and the Target Interest constitutes state-owned assets, the Vendor is required to sell the Target Interest at its fair value and in an open, fair and impartial manner. Therefore, the equity transfer of the Target Interest was required to go through the process of public tender via a qualified equity exchange in accordance with the relevant PRC laws and regulations governing the transfer of state-owned assets.

To commence the public tender process, subject to the approval of the state-owned assets supervision department, the Vendor was required to perform the pre-listing disclosure procedures through SDPREC, a qualified equity exchange, with a publicity period of 20 business days. The pre-listing disclosure contained the basic information regarding the Target Interest. Upon completion of the pre-listing disclosure procedure, the formal process of the public tender of the Target Interest commenced. We have reviewed the tender notice published by the Vendor, setting out, inter alia, the minimum consideration of the Target Interest and the principal terms of the bidding.

Having considered that the bidding of the Target Interest was open for tender in a public manner in compliance with the relevant laws and procedures, we are of the view that the DSM Zibo Acquisition is conducted on normal commercial terms and fair and reasonable.

3.2 Reasons for the DSM Zibo Acquisition

As stated in the Board Letter, the DSM Zibo Acquisition is consistent with its current tactical goals, including further extending the industry value chain of the Group, stabilising the supply of part of the raw materials required for the Group's production of pharmaceutical preparations, reducing the amount of continuing connected transactions with its controlling shareholder group (with the meanings ascribed thereto under the Listing Rules) and further lowering the transaction costs incurred in sourcing and procurement in relation thereto, enhancement of the techniques of the Group, and as a result strengthening of the competitiveness of the Group.

As disclosed in the above section headed "1 Information on the Group", the Group principally engages in the development, manufacture and sales of bulk pharmaceuticals, preparations and chemical products. The chemical bulk drugs and preparation industry segments are the main income contributors of the Group, which in aggregate contributed approximately 87.4% and 87.7% of the total operating income of the Group for FY2017 and 1H18 respectively. By acquiring DSM Zibo, which has been supplying chemical raw materials to the Company, the Group can enjoy the benefit of vertical integration. Extension of the industry value chain of the Group will enhance the Company's competitiveness through reducing costs incurred. As advised by the Company, the procurement process of the chemical raw materials is a lengthy and tedious process which involves repeated tender and evaluation. Due to the fact that DSM Zibo is a member of the controlling shareholder group, the transactions contemplated under the sale and purchase agreements between DSM Zibo and the Company constitute continuing connected transactions. As advised by the Company, such transactions amounted to approximately RMB19.5 million for the 11 months ended November 2018. Upon the completion of the DSM Zibo Acquisition, the Vendor will cease to have any equity interest in DSM Zibo and therefore the supplying of chemical raw materials from DSM Zibo to the Company will no longer constitute continuing connected transactions. As a result of decreased amount of continuing connected transactions, the administrative procedure regarding the internal reporting and monitoring will be simplified. The Company can enhance its operating efficiency in relation to the chemical bulk drugs and preparation segments, and as a result improve its profitability.

According to the Interim Report 2018, the Company is attending to the overall deployment to further improve the comprehensive competitiveness. The Company also aims to speed up the technological transformation of production lines, and improve the continuity and automation of production. The DSM Zibo Acquisition is consistent with the Group's strategy of improving the comprehensive competitiveness by creating strategic synergies and streamlining the overall production process. The Company can have better flexibility on determining its production scale and speed of transformation of production lines, as it would have better control of the supply of raw materials. Also, by integrating the management and production experience of DSM Zibo, the Company may be benefited in terms of the enhancement of techniques and overall production efficiency.

Having taken into account that the Group can (i) enjoy the benefit of vertical integration; (ii) save costs as a result of the decreased continuing connected transactions; (iii) enhance operating efficiency and profit margin; (iv) have better control of the supply of raw materials; and (v) benefit from the enhancement of techniques and competitiveness, we are of the view that the DSM Zibo Acquisition is fair and reasonable so far as the Disinterested Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

4 Industry outlook

We have conducted research and noted from the publication《2017年醫藥產業經濟運行分析》(Analysis for the Pharmaceutical Industry Economic Operation in 2017*) released by the Ministry of Industry and Information Technology of the PRC that, the demand for the pharmaceutical products was expected to grow continuously with a steady rate due to the continued support by the government policy for pharmaceutical innovation research and development. It is reported that the medical innovation environment has improved significantly with the continuous deepening of the review and approval reform. Having considered the growth prospect of the industry, we are of the view that the Company's tactical goal to strengthen its competitiveness so as to capture potential opportunities in the future, by further expanding the operation of the Group and enhancing the techniques of the Company through DSM Zibo Acquisition, is fair and reasonable.

5 Principal terms of the Agreement

Details of the Agreement is set out in the Board Letter. The principal terms of the Agreement are as follows:

Date

20 December 2018

Parties

1. the Company as the purchaser; and

2. the Vendor

Subject matter

The Company agreed to purchase and the Vendor agreed to sell the Target Interest, being 30% interest in the equity capital of DSM Zibo free of encumbrances owned by the Vendor.

Consideration

The Consideration in respect of the transfer of the Target Interests is RMB63,030,660. Within 5 business days from the Agreement's taking effect, the Consideration shall be paid in cash one-off and the security deposit of RMB6.4 million paid as a condition for entering into the Tender as a potential qualified transferee will be counted in and applied to set off part of the Consideration. The Consideration will be paid up with the internal resources of the Group.

6 Evaluation of the Consideration

The Consideration was the Listing Price at which the Tender started. The Listing Price was set with reference to the Valuation Report prepared by the Valuer, a qualified valuation institution in the PRC. According to the Valuation Report dated 8 May 2018 issued by the Valuer, as at the Benchmark Date, the value of 100% equity interests of DSM Zibo was RMB210,100,000 based on the assets, liabilities and net assets of DSM Zibo by way of asset-based approach. The Listing Price of the Tender being also the Consideration of the Agreement represents 30% of the Appraised Value.

In assessing the fairness and reasonableness of the Consideration, we have primarily considered the Valuation Report, details of which are set out in Appendix I to the Circular.

We consider the basis of determination of the Consideration according to the Valuation Report prepared by a qualified valuation institution is on normal commercial terms and fair and reasonable, as it is a requirement under Interim Measures for the Management of the Transfer of the State-owned Property Right of Enterprises (《企業國有產權轉讓管理暫行辦法》), jointly promulgated by the State-owned Assets Supervision and Administrative Commission and the Ministry of Finance of the PRC, and effective from 1 February 2004.

For our due diligence purpose, we have reviewed the Valuation Report and the underlying valuation workings and discussed with the Valuer, including, among other things:

Scope of work

We have reviewed the terms of engagement of the Valuer in connection with the DSM Zibo Acquisition. We consider that the scope of the valuation work per the engagement letter entered into between the Vendor and the Valuer are appropriate for the purpose of the DSM Zibo Acquisition and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Report.

The Valuer's expertise and independence

We have enquired with the qualification, experience and independence of the Valuer in relation to the performance of the valuation. We were given to understand that the Valuer is certified with the relevant professional qualifications required to perform the valuation in connection with the DSM Zibo Acquisition, and the professional who is responsible for the valuation, namely, Mr. Liu Jibin, has over 21 years of valuation experience and has expertise covers the valuation with similar nature to DSM Zibo. We also noted that the execution team of the Valuer has extensive experience in performing valuation services for numerous sizeable enterprises covering a wide range of industries in the PRC. As advised by the Valuer, it has undertaken approximately 500 valuation projects in the past 2 years. According to the track record of Mr. Liu Jibin, he is experienced in undertaking business valuation and has performed not less than 60 valuation services since he joined the Valuer in August 2017. The Valuer confirmed that it is an independent third party to the Group, the Vendor, DSM Zibo or their respective associates and all relevant material information provided by DSM Zibo had been incorporated in the Valuation Report. Based on the above, we are of the view that the Valuer is qualified to perform the valuation.

Selection of valuation methodology

We have discussed with the Valuer and given to understand that the valuation could be conducted by three different generally accepted valuation methods, namely the market approach, the income approach and the asset-based approach in arriving at the market value of the entire equity interest in DSM Zibo.

The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset. As advised by the Valuer, the market approach is not applicable for the valuation due to the fact that the lack of transparency in the PRC market resulting in limited disclosure of transactions details and transactions in the market have low comparability with DSM Zibo in terms of business nature, revenue model, scale of production and risks exposure. More importantly, during the review period around the Benchmark Date, there were limited comparable transactions that could make meaning inferences.

The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset. As advised by the Valuer, since DSM Zibo has independent profitability and its management is able to provide profit forecast data for the coming years, the future profit level and risk exposure can be reasonably estimated and quantified. Thus, the income approach is applicable for the valuation.

The asset-based approach provides an indication of value based on the principle that an informed buyer would pay no more than the cost of producing the same or a substitute asset with equal utility as the subject asset. As advised by the Valuer, since DSM Zibo can provide and the Valuer can obtain externally the information required for application of asset-based approach and the relevant items could be assessed and valued, the asset-based approach is applicable for the valuation.

We noted from the Valuation Report that the appraised value based on the income approach was approximately RMB36,600,000 while the appraised value based on the asset-based approach was approximately RMB210,100,000. We have enquired with the Valuer and given to understand that, such discrepancy is due to the fact that income approach relies on one firm's profitability in the future, which is more sensitive to the business risks and the operating environment. DSM Zibo, as an asset heavy manufacturer, is susceptible to the regulations governing the production of medicines. Due to the current regulatory environment and policies in force, the appraised value based on the income approach was impacted by the uncertainties and risks regarding DSM Zibo's future profitability. Taking into account that the asset-based approach is able to reflect the current market fair value of DSM Zibo, by assessing the existing assets and liabilities of DSM Zibo which are auditable, we concur with the view of the Valuer that the appraised value based on the asset-based approach is comparably more reliable and thus we consider the valuation conclusion fair and reasonable.

Procedures and assumptions adopted in the asset-based approach

We have enquired with and were advised by the Valuer that they had performed necessary due diligence work for the preparation of the Valuation Report, which includes site visits, relevant enquiries and searches, examination of further information considered necessary and proprietary research in relation to the preparation of the Valuation Report. The Valuer also confirmed that the appraisal methods used in valuation of the assets and liabilities of DSM Zibo are all common methodologies in establishing the valuation of such and complied with the relevant professional standard for valuation in the PRC. We noted that the Valuer has made various assumptions, including but not limited to that (i) the appraised assets are already in the process of transaction; (ii) there is an open market; (iii) the appraised assets can be continuously used; and (iv) DSM Zibo can continue to operate.

During the course of our review on the Valuation Report and having considered that (i) the scope of work; (ii) expertise and independence of the Valuer; (iii) the methodologies being applied in the valuation; and (iv) the principle bases and assumptions used in arriving at the valuation, we consider that no unusual matter has come to our attention that would lead us to doubt the reasonableness of the Valuation Report. We are of the view that the methodology and assumptions which had been adopted were arrived at after due and careful consideration.

We are aware that the Benchmark Date, at which the Appraised Value was determined, was over half year preceding the date of the Agreement. As confirmed by the Company, as at the date of the Agreement, there had not been any material events or changes in the financial performance and position of DSM Zibo since the Benchmark Date. We have enquired with and were advised by the Company that the unaudited net profit and net asset value of DSM Zibo for the financial year ended 31 December 2018 were no worse than the corresponding figures for the financial year ended 31 December 2017. We also understand from the Valuation Report that the use of the Valuation Report has a valid period of one year from the Benchmark Date, which is ending on 27 February 2019. We have further researched and noted from Article 10 of the Principles for Asset Valuation – Valuation Report (《資產評估執業準則—資產評估報告》) issued by the China Appraisal Society that "Valuation report shall clearly specify the valid period for using the report. Generally, the valuation report shall only be used where the period between the valuation date and the date on which the economic act executed is not more than one year". We therefore believe the valid period of one year is consistent with the market practice and consider the Benchmark Date being approximately nine months earlier than the date of the Agreement acceptable. Taking into account (i) the period between the Benchmark Date and the date of the Agreement did not have material events that would arouse suspicion on the validity and reasonableness of the Valuation Report; (ii) the financial performance and position of DSM Zibo for the financial year ended 2018 did not get worse comparing to the same period of the preceding year; and (iii) the date of the Agreement fell within the valid period stated in the Valuation Report, we are of the view that, the valuation conclusion derived based on the information as at the Benchmark Date remains sound and the Consideration determined with reference to the Appraised Value does not impair the fairness and reasonableness of the DSM Zibo Acquisition, despite the notable time lag in between the relevant dates.

Based on the above, we concur with the Board's view that the Consideration, being 30% of the Appraised Value based on the Valuation Report, is on normal commercial terms and fair and reasonable.

RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that the DSM Zibo Acquisition is in the ordinary and usual course of business of the Group and the terms of the Agreement and the transaction contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Disinterested Shareholders are concerned and the entering into of the Agreement is in the interests of the Company and the Disinterested Shareholders as a whole. We would therefore recommend the Disinterested Shareholders and advise the Independent Board Committee to recommend the Disinterested Shareholders to vote in favour of the relevant resolution for approving the Agreement and the transaction contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Hologram Capital Limited
Michael Leung
Director

Mr. Michael Leung is a person licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Hologram Capital Limited and has over 18 years of experience in corporate finance industry.

This appendix is the English translation of the content of the Valuation Report which was prepared and issued in Chinese. For any inconsistencies between the original texts of the Valuation Report of which the content is reproduced in Appendix I of the Chinese version of this circular and the English translation herein, the Chinese version shall prevail.

Valuation Report on the Value of 100% Equity Interest of DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. in Respect of the Proposed Disposal of the Equity Held by Shandong Xinhua Pharmaceutical Group Company Limited

Tian Xing Lu Ping Bao Zi (2018) No. 037

As commissioned by Shandong Xinhua Pharmaceutical Group Company Limited, in accordance with the provisions of relevant laws, administrative regulations and asset valuation standards, and adhering to the principles of independence, objectivity and impartiality, Shandong Tian Jian Xing Ye Asset Valuation Company Limited conducted valuation on the market value of all shareholders' equity of DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. on 28 February 2018 in respect of the proposed transfer of equity interest held by Shandong Xinhua Pharmaceutical Group Company Limited in DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. by adopting the asset-based approach and income approach and based on the necessary valuation procedures. The asset valuation is reported as follows:

I. THE CLIENT, EVALUATED ENTITY AND OTHER USERS OF THE VALUATION REPORT AS ENTRUSTED IN THE VALUATION COMMISSION CONTRACT

(I) Profile of the client

Company Name:	Shandong Xinhua Pharmaceutical Group Company Limited
Registered Address:	No. 14 Dongyi Road, Zhangdian District, Zibo City, Shandong Province
Legal Representative:	Zhang Daiming
Registered Capital:	RMB298.504683 million
Type:	limited liability company (sole legal corporation invested or controlled by non-natural person)
Date of Establishment:	11 March 1995

Scope of Business: investment in the design of construction engineering, property development, food and beverages; packaging and decoration; manufacturing and sales of chemical machinery and equipment, instruments and meters; sales of chemical products (excluding dangerous goods and drug-making chemical); operation of import and export business (businesses that require pre-approvals according to laws and regulations can only be conducted after obtaining approvals from the relevant authorities).

(II) Profile of the evaluated entity

1. Basic information

Company Name:	DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. (hereinafter referred to as "DSM")
Registered Address:	No. 1033 Mulongshan Road, High-tech Zone, Zibo City, Shandong Province
Legal Representative:	Karl Rotthier
Registered Capital:	US$11.389 million
Paid-in Capital:	US$11.389 million
Type:	limited liability company (sino-foreign joint venture)
Date of Establishment:	4 September 1995
Term of Operation:	4 September 1995 to 23 February 2030

Scope of Business: manufacturing of pharmaceutical raw materials including Cefalexi, Cefradine, Cefadroxil, Cefaclor and Cefprozil, and sales of products manufactured by the appraised company (businesses that require pre-approvals according to laws and regulations can only be conducted after obtaining approvals from the relevant authorities with validity term set out in relevant permit).

2. History, equity structure and changes of the appraised company

Established on 4 September 1995, DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. (previously known as Shandong Zibo Xinhua Chemferm Industrial Pharmaceutical Co., Ltd. (山東淄博新華–肯孚製藥有限公司)) had a registered capital of US$3 million and the shareholders of Chemferm Group Co., Ltd. (荷蘭肯孚集團有限責任公司) and Shandong Xinhua Pharmaceutical Group Company Limited. Its paid-in capital amounted to US$3 million, which was contributed by spot exchange and RMB. The capital contribution was verified by the capital verification report "Zi Zhong Shen Shi Cai Zi [1995] No. 103" issued by Shandong Zibo Zhongxin Auditing Firm (山東淄博中信審計師事務所). The appraised company's equity structure is as follow:

Unit: US$0'000

Name of shareholder	Registered capital payable		Registered capital paid	
	Amount	Percentage	Amount	Percentage
Chemferm Group Co., Ltd.	153.00	51.00%	153.00	51.00%
Shandong Xinhua Pharmaceutical Group Company Limited	147.00	49.00%	147.00	49.00%
Total	300.00	100.00%	300.00	100.00%

On 14 December 1999, upon approval of capital increase by the resolution of the board of directors of the appraised company, the registered capital increased to US$3.8193 million and the paid-in capital increased to US$3.8193 million, which was contributed by currency funds. The capital contribution was verified by the capital verification report "Zi Xin Kuai Yan Zi [1999] No. 15" issued by Shandong Zibo Xincheng Certified Public Accountants (山東淄博新誠會計師事務所). Upon completion of the capital increase, the appraised company's equity structure is as follow:

Unit: US$0'000

Name of shareholder	Registered capital payable		Registered capital paid	
	Amount	**Percentage**	**Amount**	**Percentage**
Chemferm Group Co., Ltd.	194.79	51.00%	194.79	51.00%
Shandong Xinhua Pharmaceutical Group Company Limited	187.14	49.00%	187.14	49.00%
Total	381.93	100.00%	381.93	100.00%

In March 2001, the board of directors of the appraised company resolved to transfer all shares held by the original overseas shareholder Chemferm Group Co., Ltd. to Gist-Brocades International B.V. (GBI) at nil consideration, and conduct capital increase, through which, the registered capital increased to US$10.4693 million and the paid-in capital increased to US$10.4693 million, among which, US$3.3915 million of additional capital was contributed by Gist-Brocades International B.V. and US$3.2585 million of additional capital was contributed by Shandong Xinhua Pharmaceutical Group Company Limited. The assets related to the above invested capital totaled US$6.65 million, including US$6.34040371 million of currency funds and US$309,596.29 of intangible assets – land use rights. The capital contribution was verified by the capital verification report "Lu Xin Kuai Yan Zi [2001] No. 28" issued by Shandong Xincheng Certified Public Accountants Co., Ltd. (山東新誠有限責任會計師事務所). Upon completion of the capital increase, the appraised company's equity structure is as follow:

Unit: US$0'000

Name of shareholder	Registered capital payable Amount	Registered capital payable Percentage	Registered capital paid Amount	Registered capital paid Percentage
Gist-Brocades International B.V.	533.93	51.00%	533.93	51.00%
Shandong Xinhua Pharmaceutical Group Company Limited	513.00	49.00%	513.00	49.00%
Total	1,046.93	100.00%	1,046.93	100.00%

On 30 August 2002, upon approval of capital increase by the resolution of the board of directors of the appraised company, the registered capital increased to US$11.3890 million and the paid-in capital increased to US$11.3890 million, including US$56,282.89 of additional capital contribution by Gist-Brocades International B.V. (GBI), which was contributed by the dividends entitled by GBI for the years 1999 and 2000, and the tax refund for re-investment entitled by it in accordance with the requirements of laws of the People's Republic of China, and US$54,075.73 of additional capital contribution by Shandong Xinhua Pharmaceutical Group Company Limited, which was contributed by the dividends entitled by it for the years 1999 and 2000, and monetary currency. The capital contribution was verified by the capital verification report issued by ShineWing Certified Public Accountants. Upon completion of the capital increase, the appraised company's equity structure is as follow:

Unit: US$0'000

Name of shareholder	Registered capital payable Amount	Registered capital payable Percentage	Registered capital paid Amount	Registered capital paid Percentage
Gist-Brocades International B.V. (GBI)	580.84	51.00%	580.84	51.00%
Shandong Xinhua Pharmaceutical Group Company Limited	558.06	49.00%	558.06	49.00%
Total	1,138.90	100.00%	1,138.90	100.00%

In October 2007, Shandong Xinhua Pharmaceutical Group Company Limited transferred 19% equity interest held by it in the appraised company to Gist-Brocades International B.V. (GBI). Upon equity transfer, the appraised company is owned as to 30% and 70% by Shandong Xinhua Pharmaceutical Group Company Limited and Gist-Brocades International B.V. (GBI), respectively. The appraised company's equity structure is as follows:

Unit: US$0'000

No.	Name of shareholder	Registered capital payable	Shareholding percentage
1	Gist-Brocades International B.V. (GBI)	797.23	70.00%
2	Shandong Xinhua Pharmaceutical Group Company Limited	341.67	30.00%
Total		1,138.90	100.00%

On 5 September 2008, Shandong Zibo Xinhua Chemferm Industrial Pharmaceutical Co., Ltd. was renamed as DSM Zibo Pharmaceuticals Co., Ltd. (帝斯曼淄博製藥有限公司). On 27 August 2012, DSM Zibo Pharmaceuticals Co., Ltd. was renamed as DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd.

As at the Benchmark Date, the equity structure of DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. remained unchanged.

3. *Overview of major assets of the appraised company*

Major assets of DSM are inventories, fixed assets and intangible assets – land use rights, intangible assets – other intangible assets. The major assets are summarized as follows:

(1) Inventories

Inventories reported by DSM are mainly procurement of materials (materials in transit), raw materials, finished goods (merchandise inventory), semi-finished goods and turnover materials in stock, all of which are stored in the Operation Plant, No. 1033, Mulongshan Road, High-tech Zone, Zibo, Shandong Province. All inventories are placed neatly under proper management.

1) Procurement of materials (materials in transit)

7-ADCA(E) 7-ADCA, SARA enzyme, OLAS enzyme, ELAS-X enzyme and other raw materials purchased for DSM for its production have been stored in the warehouse in the plant area under proper management as of the date of on-site investigation.

2) Raw materials

7-ADCA (E) 7-ADCA, PG phenylglycine, 7-ACCA (7-amino-3-chloro-3-cephem-4-carboxylic acid), various enzymes and other raw materials purchased for DSM for its production are currently stored in the warehouse in the plant area under proper management.

3) Finished products (merchandise inventory)

All finished and available-for-sale products produced for DSM are stored in the warehouse in the plant area.

4) Unfinished products (self-manufactured semi-finished goods)

All unfinished products manufactured for DSM are stored in the workshop.

5) Turnover materials in stock

Bearings, frequency converters, safety valves, electrodes and other materials purchased for DSM for its production are stored in the warehouse in the plant area under proper management.

(2) Fixed assets

1) Buildings (structures) include buildings and structures, with an original book value of RMB103,548,618.24 and a net book value of RMB60,487,728.18, where:

① There are a total of 15 buildings, with a gross floor area of 17,451.38 sq.m., an original book value of RMB62,033,819.20 and a net book value of RMB38,001,576.53, including complex, reception office, main cephalosporin plant zone A, Cefradine plant, refrigerating room, side chain workshop, power workshop, multi-functional workshop, north office building and guard room. Most of them were constructed after 2001 with frame or steel structures. Property ownership certificates, on which DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. is stated as the property owner, for 8 buildings located in the south plant and No. 14, Dongyi Road, Zhangdian District have been dealt with, while the property ownership certificates for 7 buildings located in the north plant are under application.

Cefradine plant, with a gross floor area of 2,723.25 sq.m., is located at No. 14, Dongyi Road, Zhangdian District, and the land owned by Shandong Xinhua Pharmaceutical Group Company Limited is used by DSM at nil consideration.

② There are a total of 51 structures, with an original book value of RMB41,514,799.04, and a net book value of RMB22,486,151.65, mainly ancillary facilities for production, including temporary office, MPP pipeline, road lamp engineering in the plant area, fire pool, unloading platform, bicycle shed, cesspool, enclosure, roads, pipelines and other ancillary production facilities.

The above buildings (structures) are all located in the south plant area (No. 1033, Mulongshan Road, High-tech Zone, Zibo City, currently renamed as Huagong Road) and the north plant area (North of Beiling Road, High-tech Zone, Zibo City, West of Guihua Baoshan Road. Except for the land occupied by the Cefradine plant and located in No. 14, Dongyi Road, Zhangdian District is used at nil consideration, corresponding lands are used for transfer, and the property owner indicated on property ownership certificates is DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd.

2) Machinery and equipment: a total of 1,500 items of machinery and equipment are reported by DSM for valuation. Major machinery and equipment include retorts, suspension sedimentation centrifuges, pressure filters, pumps, screw chillers, automatic packaging lines, water purification systems and transformers.

   Among the above machinery and equipment, one set of equipment has been dismantled (please refer to the Detailed Statement of Asset Valuation for details). Others can be used normally in general operating conditions.

3) There are a total of 4 vehicles, including 1 JAC minibus, 1 Volkswagen car, 2 BUICK minibuses. All of which are currently in the Operation Plant, No. 1033, Mulongshan Road, High-tech Zone, Zibo, Shandong Province, and can be used normally.

4) There are a total of 348 electronic equipment (a total of 355 sets (suits)), including office desktop computers, laptops, routers and other office devices.

(3) *Intangible assets – land use rights*

There are a total of three cases of land use rights included within the scope of valuation with a land area of 85,060.40 m^2 and a book value of RMB27,836,009.02. Two cases are in the south plant area and one case is in the north plant area. In particular:

1) State-owned Land Use Rights Certificate No.: Zi Guo Yong [2015] No. F05747; owner of land use rights: DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd.; land location: North of Beiling Road, High-tech Zone, Zibo, West of Guihua Baoshan Road; purpose: for industrial use; type of land use rights: transfer; area of land use rights: 66,666 m^2; date of obtaining State-owned Land Use Rights Certificate: 25 May 2012; expiry date: 2 November 2061; the four boundaries of the land parcel: east – Baoshan Road; south – Huiying North Road; west – Huiying West Road; north – Shandong Inov Polyurethane Co., Ltd.; development level of the land parcel: seven connections beyond the land parcel (water supply, drainage, road, electric power, communication, gas and heating) and site formation within the land parcel.

2) State-owned Land Use Rights Certificate No.: Zi Guo Yong [2015] No. F05764; owner of land use rights: DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd.; land location: No.1033, Mulongshan Road, High-tech Zone, Zibo (currently known as Huagong Road); purpose: for industrial use; type of land use rights: transfer; area of land use rights: 3,001.1 m^2; time for obtaining State-owned Land Use Rights Certificate: 13 April 2009; expiry date: 27 December 2030; four boundaries of the land parcel: east – DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd.; south – Mulongshan Road; west – Shandong Xinhua Pharmaceutical Company Limited; north – Shandong Xinhua Pharmaceutical Company Limited; development level of the land parcel: seven connections beyond the land parcel (water supply, drainage, road, electric power, communication, gas and heating) and site formation within the land parcel.

3) State-owned Land Use Rights Certificate No.: Zi Guo Yong [2015] F05349; owner of land use rights: DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd.; land location: No. 1033, Mulongshan Road, High-tech Zone, Zibo (currently known as Huagong Road); purpose: for industrial use; type of land use rights: transfer; area of land use rights: 15,939.3 m^2; time for obtaining State-owned Land Use Rights Certificate: 25 November 2015; expiry date: 27 December 2030; four boundaries of the land parcel: east – Shandong Xinhua Pharmaceutical Company Limited; south – Mulongshan Road; west – Shandong Xinhua Pharmaceutical Company Limited; north – Shandong Xinhua Pharmaceutical Company Limited; level of development of the land parcel: seven connections beyond the land parcel (water supply, drainage, road, electric power, communication, gas and heating) and site formation within the land parcel.

(4) Intangible assets – other intangible assets

Intangible assets – other intangible assets included in the scope of valuation are the technical concession – CEX, technical concession – CDX and CDX system, SAP Local software system and SAP software system held by the evaluated entity, with a book value of RMB25,616,969.74. Other intangible assets mentioned above are purchased by the outsourced appraised unit. Technical concession – CEX (Cefalexin enzymatic method technique) and technical concession – CDX (Cefadroxil enzymatic method technique) are used by DSM under the concession given by DSM Sinochem Pharmaceuticals Netherlands BV for catalyzing the reaction of two raw materials to produce Cefalexin and Cefadroxil. The techniques can result in effective avoidance of the disadvantages of high energy consumption and severe pollution caused by traditional chemical method, recycle of key raw materials and cost reduction. SAP Local software system and SAP software system are purchased by DSM for ERP management and provision of various relevant enterprise management services for Chinese and foreign parties.

4. *Overview of main business of the appraised company*

(1) Main products or services

Manufacture of API products (Cefalexin, Cefradine, Cefadroxil and Cefaclor); sales of the products manufactured by the appraised company.

(2) Business model

Production model of the appraised company is planned production, sales and operation.

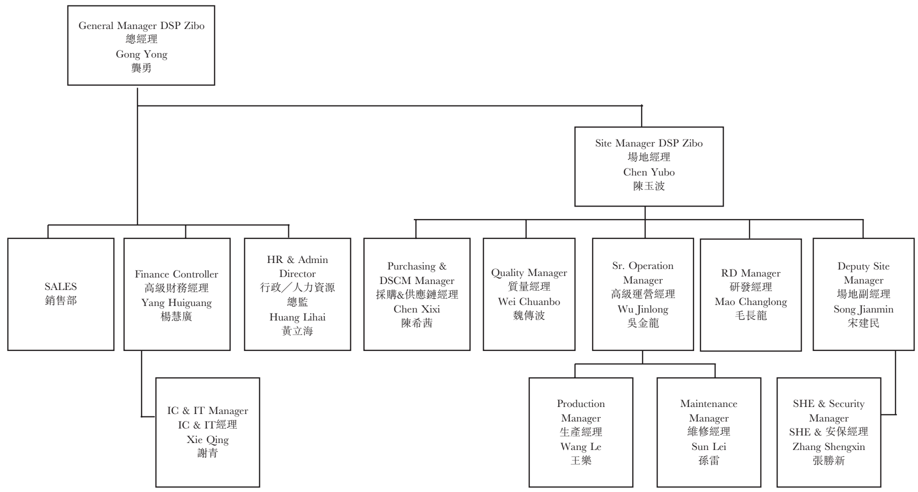
(3) Production, operation and management conditions

DSM took the lead in the production of antibiotic API products, including Cefalexin, Cefradine, Cefadroxil and Cefaclor, in 1995, making indelible contributions to the localization, promotion and application of such products.

In 2008, DSM introduced the patent technology of internationally advanced green enzymatic method from DSM Sinochem Pharmaceuticals Netherlands BV, initiating the production of green enzymatic Cephalosporin products in the PRC. The technology is completely different from current domestic and foreign production technologies by using chemical method. Enzymic Cefalexin and Enzymic Cefadroxil are enzyme catalysis techniques for exclusive use in China and are of international leading level. Enzymic Cefradine, Enzymic Cefaclor, Enzymic Cefprozil, etc. are the first techniques of its kind in the world.

Currently, main products of DSM are chemical APIs, including Cefalexin, Cefradine, Cefadroxil and Cefaclor, with production scale of 1,600 tons/year.

5. *Organizational structure of the appraised company and Human Resources*



The appraised company has established Sales Department, Finance & IT Department, Administration/Human Resources Department, SHE Department, Procurement & Supply Chain Department, R&D Department, Quality Department and Production and Operation Department. The appraised company has 200 in-service employees, including 33 management personnel, 157 manufacturing personnel and 10 sales personnel.

6. *Statement of financial position and operating results*

Statement of Financial Position

Unit: RMB0'000

Items	**28 February 2018**	**31 December 2017**	**31 December 2016**	**31 December 2015**
Current assets	21,859.90	20,671.13	24,951.88	17,592.51
Non-current assets	17,559.48	17,644.47	17,704.47	18,611.29
Including: Long-term equity investments	–			
Investment properties	–			

Items	28 February 2018	31 December 2017	31 December 2016	31 December 2015
Fixed assets	9,928.48	10,191.80	10,722.41	12,376.04
Projects in progress	1,864.26	1,653.15	918.91	610.75
Intangible assets	5,345.30	5,396.65	5,704.73	5,258.21
Others	421.44	402.87	358.43	366.29
Total assets	39,419.38	38,315.59	42,656.35	36,203.80
Current liabilities	22,759.84	21,662.46	26,193.23	19,787.05
Non-current liabilities	1,365.53	1,370.77	1,402.24	1,433.70
Total liabilities	24,125.37	23,033.23	27,595.46	21,220.75
Net assets	15,294.01	15,282.36	15,060.89	14,983.05

Statement of Operating Results

Unit: RMB0'000

Items	January – February 2018	2017	2016	2015
I. Operating income	6,781.76	33,902.86	34,339.63	32,765.24
Less: Operating cost	6,104.31	29,423.30	30,291.63	28,437.29
Business taxes and surcharges	102.80	272.44	211.29	137.74
Selling expenses	69.51	456.61	464.05	367.12
Administrative expenses	426.04	2,506.34	2,536.67	2,361.54
Financial expenses	-100.01	824.76	718.14	964.47
Asset impairment loss		131.25		-143.19
Add: Income from changes in fair value	-79.52	-85.73	7.72	
Gains on investments	-83.43	108.41	-152.32	
Gains from disposal of asset		-0.59		3.86
Other income	5.24	31.46		

Items	January – February 2018	2017	2016	2015
II. Operating profits	21.40	341.71	-26.73	644.13
Add: Non-operating income		15.39	389.31	138.63
Less: Non-operating expenditure	3.43	38.06	242.71	3.64
III. Total profits	17.97	319.04	119.86	779.12
Less: Income tax expenses	6.32	97.57	42.02	268.24
IV. Net profit	11.65	221.47	77.84	510.88

Financial data indicated in the above table has been audited by ShineWing Certified Public Accountants (Special General Partnership), which issued an unqualified audit report numbered XYZH/2018JNA50106.

(III) Other users of the Asset Valuation Report specified in the asset valuation entrustment contract

Pursuant to the agreement in the asset valuation entrustment contract, this Asset Valuation Report shall only be used by Hualu Holdings Co., Ltd.

(IV) Relationship between the client and the evaluated entity

The client is the shareholder of the evaluated entity.

II. PURPOSE OF EVALUATION

Pursuant to the Resolutions of the 2018 Second Board Meeting of Hualu Holdings Co., Ltd., Shandong Xinhua Pharmaceutical Group Company Limited proposes to transfer its 30% equity in DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. which requires the valuation of all shareholders' equity of DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. to provide reference of value for such economic activity.

III. VALUATION TARGET AND SCOPE

(I) Valuation target

The valuation target is the value of entire shareholders' equity of DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd.

(II) Scope of valuation

The scope of valuation covers all assets and liabilities of DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. as of the Benchmark Date, where, total book value of assets is RMB394.1938 million, book value of liabilities is RMB241.2537 million, net book value of assets is RMB15,294.01. Book values of various assets and liabilities are as shown in the following table:

Summary of reporting for asset valuation

Unit: RMB0'000

Items	**Book value**
Current assets	21,859.90
Non-current assets	17,559.48
Including: Long-term equity investments	–
Investment properties	–
Fixed assets	9,928.48
Projects in progress	1,864.26
Intangible assets	5,345.30
Including: land use rights	2,783.60
Others	421.44
Total assets	39,419.38
Current liabilities	22,759.84
Non-current liabilities	1,365.53
Total liabilities	24,125.37
Net assets	15,294.01

1. The client and the evaluated entity have undertaken that the subject of valuation and the scope of valuation are consistent with the subject of valuation and the scope of valuation involved in the economic activity, and have been audited by ShineWing Certified Public Accountants (Special General Partnership), which issued an unqualified audit report numbered XYZH/2018JNA50106.

2. Assets not recorded in books as reported by the enterprise.

   Nil.

3. Quotation of the reports issued by other organizations.

   Nil.

IV. TYPE OF VALUE

The type of value to be evaluated includes market value and the types of value other than market value. Types of value other than market value generally include (but not limited to) investment value, value in use, liquidation value and residual value, etc. Purpose of this valuation is to provide a value reference of equity transfer activity with no specific restrictions on market conditions. Therefore, market value was selected as the type of value of the valuation. Market value mentioned in the valuation report refers to the estimated amount of value of the subject of valuation in an arm's-length transaction made in the ordinary course of business on the Benchmark Date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

V. BENCHMARK DATE

The Benchmark Date of this valuation is 28 February 2018.

The Benchmark Date of this valuation is determined by the client and is consistent with the Benchmark Date as agreed in the asset valuation commission contract.

VI. BASIS OF VALUATION

The basis of economic activities, basis of laws and regulations, evaluation criteria, basis of asset ownership, and the basis of pricing in value estimation adopted in this valuation are set out as follows:

(I) Basis of economic activities

Resolutions of the 2018 Second Board Meeting of Hualu Holdings Co., Ltd.

(II) Basis of laws and regulations

1. Asset Valuation Law of the People's Republic of China (《中華人民共和國資產評估法》) (Adopted at the 21st Meeting of the Standing Committee of the Twelfth National People's Congress on 2 July 2016);

2. Company Law of the People's Republic of China (《中華人民共和國公司法》) (Revised and Adopted at the 6th Meeting of the Standing Committee of the Twelfth National People's Congress on 28 December 2013);

3. Financial Supervision and Management Measures of Assets Evaluation Industry (《資產評估行業財政監督管理辦法》) (Decree No. 86 of the Ministry of Finance of the People's Republic of China) (中華人民共和國財政部令第86號);

4. Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (Adopted at the 5th Meeting of the Tenth National People's Congress on 16 March 2007);

5. Law of the People's Republic of China on State-owned Assets of Enterprises (《中華人民共和國企業國有資產法》) (Adopted at the 5th Meeting of the Standing Committee of the Eleventh National People's Congress on 28 October 2008);

6. Measures for the Administration of State-owned Assets Appraisal (《國有資產評估管理辦法》) (Decree No. 91 of the State Council) (國務院令第91號);

7. Notice on the Issuance of the Detailed Rules for the Implementation of the Measures for the Administration of State-owned Assets Appraisal (《關於印發〈國有資產評估管理辦法施行細則〉的通知》) (Guo Zi Ban Fa [1992] No. 36) (國資辦發[1992]36號);

8. Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (《企業國有資產監督管理暫行條例》) (Decree No. 588 of the State Council) (國務院令第588號);

9. Interim Measures on the Administration of State-owned Assets Appraisal of Enterprises (《企業國有資產評估管理暫行辦法》) (Decree No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council) (國務院國有資產監督管理委員會令第12號);

10. Notice on Strengthening the Administration of State-owned Assets Appraisal (《關於加強企業國有資產評估管理工作有關問題的通知》) (Guo Zi Wei Chan Quan [2006] No. 274) (國資委產權[2006]274號);

11. Notice on Relevant Matters Concerning the Examination of Appraisal Reports on State-owned Assets of Enterprises (《關於企業國有資產評估報告審核工作有關事項的通知》) (Guo Zi Chan Quan [2009] No. 941) (國資產權[2009]941號);

12. Notice on the Issuance of Guidelines on the Filing of State-owned Assets Appraisal Projects for Enterprises (《企業國有資產評估項目備案工作指引》) (Guo Zi Fa Chan Quan [2013] No. 64) (國資發產權[2013]64號);

13. Measures for the Supervision and Administration over the Trading of State-owned Assets in Enterprises (《企業國有資產交易監督管理辦法》) (Decree No. 32 of the SASAC and the Ministry of Finance) (國資委、財政部令第32號);

14. Rules on the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (《中華人民共和國增值稅暫行條例實施細則》) (Decree No. 65 of the Ministry of Finance and State Administration of Taxation) (財政部、國家稅務總局令第65號);

15. Notice on Carrying out Pilot Operation of Change from Business Tax to Value-added Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36) (財稅第[2016]36號);

16. The Urban Real Estate Administration Law of the People's Republic of China (《中華人民共和國城市房地產管理法》);

17. Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》);

18. Regulations for the Implementation of the Land Administration Law of the PRC (中華人民共和國土地管理法實施條例);

19. Provisional Regulations of the People's Republic of China on Land Use Tax in Cities and Towns (《中華人民共和國城鎮土地使用稅暫行條例》);

20. Other relevant laws and regulations.

(III) Evaluation criteria

1. Basic Standards on Assets Valuation (《資產評估基本準則》) (Cai Zi [2017] No. 43) (財資[2017]43號);

2. Code of Ethics for Assets Valuation (《資產評估職業道德準則》) (Zhong Ping Xie [2017] No. 30) (中評協[2017]30號);

3. Practice Guidelines for Asset Valuation – Asset Valuation Procedures (《資產評估執業準則－資產評估程序》) (Zhong Ping Xie [2017] No. 31) (中評協[2017]31號);

4. Practice Guidelines for Asset Valuation – Asset Valuation Report (《資產評估執業準則－資產評估報告》) (Zhong Ping Xie [2017] No. 32) (中評協[2017]32號);

5. Practice Guidelines for Asset Valuation – Asset Valuation Entrustment (《資產評估執業準則－資產評估委託合同》) Contract (Zhong Ping Xie [2017] No. 33) (中評協[2017]33號);

6. Practice Guidelines for Asset Valuation – Asset Valuation File (《資產評估執業準則－資產評估檔案》) (Zhong Ping Xie [2017] No. 34) (中評協[2017]34號);

7. Practice Guidelines for Asset Valuation – Enterprise Value (《資產評估執業準則－企業價值》) (Zhong Ping Xie [2017] No. 36) (中評協[2017]36號);

8. Practice Guidelines for Asset Valuation – Intangible Assets (《資產評估執業準則－無形資產》) (Zhong Ping Xie [2017] No. 37) (中評協[2017]37號);

9. Practice Guidelines for Asset Valuation – Real Estate (《資產評估執業準則－不動產》) (Zhong Ping Xie [2017] No. 38) (中評協[2017]38號);

10. Practice Guidelines for Asset Valuation – Machinery and Equipment (《資產評估執業準則－機器設備》) (Zhong Ping Xie [2017] No. 39) (中評協[2017]39號);

11. Guidance on Valuation Report of State-owned Assets of Enterprises (《企業國有資產評估報告指南》) (Zhong Ping Xie [2017] No. 42) (中評協[2017]42號);

12. Quality Control Guidance on the Business of Asset Valuation Agency (《資產評估機構業務品質控制指南》) (Zhong Ping Xie [2017] No. 46) (中評協[2017]46號);

13. Guiding Opinions on Types of Value under Asset Valuation (《資產評估價值類型指導意見》) (Zhong Ping Xie [2017] No. 47) (中評協[2017]47號);

14. Guiding Opinions on Legal Ownership of the Target of Asset Valuation (《資產評估對象法律權屬指導意見》) (Zhong Ping Xie [2017] No. 48) (中評協[2017]48號).

(IV) Basis of asset ownership

1. Business License and Articles of Association;

2. Land Use Right Certificate;

3. Building Ownership Certificate;

4. Vehicle Registration Certificate;

5. Major Equipment Purchase Contracts, Invoices and Related Agreements and Contracts;

6. Other Ownership Certificates.

(V) Basis of pricing in value estimation

1. Application Form for Asset Valuation and Income Forecast Table provided by the Evaluated Entity;

2. Standards for Real Estate Valuation (《房地產估價規範》) (GB/T50291–2015);

3. Guiding Opinions on the Implementation of the Notice of National Development and Reform Commission on Further Liberalization of the Professional Service Fees for Construction Projects (《國家發展改革委關於進一步放開建設項目專業服務價格的通知》) (Fa Gai Jia Ge [2015] No. 299) (發改價格[2015]299號);

4. Notice on the Issuance of the Management Regulations on the Costs of Basic Construction Projects by the Ministry of Finance (《財政部關於印發《基本建設項目建設成本管理規定》的通知》) (Cai Jian [2016] No. 504) (財建[2016]504號);

5. Financial Rules for Basic Construction《基本建設財務規則》(Decree No. 81 of the Ministry of Finance) (財政部令第81 號);

6. Circular on the Continued Implementation of Standards for Service Charges of Consultation on Newly-built Construction Costs in Shandong Province by Shandong Provincial Department of Construction (《山東省關於繼續執行新增建設工程造價諮詢服務收費標準的通知》) (Lu Jia Fei Fa [2007] No. 205)(魯價費發[2007]205號);

7. Notice on the Issuance of Guidance Fees for Safety Evaluation in Shandong Province (Trial) (《山東省安全評價收費指導價試行)》)by Shandong Provincial Association of Work Safety (Lu An Guan Xie Zi [2006] No. 4)(魯安管協字[2006]4 號);

8. National Standard of the People's Republic of China, Regulations for Appraisal of Urban Land (《城鎮土地估價規程》) (GB/T 18508–2014);

9. National Standard of the People's Republic of China, Regulations for Gradation and Classification of Urban Land (《城鎮土地分等定級規程》) (GB/T 18507–2014);

10. National Standard of the People's Republic of China, Land Use Present Situation Classification (《土地利用現狀分類》) (GB/T 21010–2007);

11. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (《機動車強制報廢標準規定》) (Decree [2012] No. 12 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection) (商務部、發改委、公安部、環境保護部令[2012]年第12號)；

12. Customs Import and Export Tariff of the People's Republic of China (《中華人民共和國海關進出口稅則》) (2018);

13. Benchmark Interest Rate of Bank Deposits and Loans and Exchange Rate on Benchmark Date;

14. Standards for Rating of Damage Conditions of Houses (《房屋完損等級及評定標準》) (Cheng Zhu Zi [1984] No. 678) (城住字[1984]第678 號);

15. Fixed Consumption for Construction Projects in Shandong Province (《山東省建築工程消耗量定額》) (2016); Fixed Consumption for Installation Projects in Shandong Province (《山東省安裝工程消耗量定額》) (2016); Price List of Construction Projects of Shandong Province (《山東省建築工程價目表》) (2016); Price List of Installation Projects of Shandong Province (《山東省安裝工程價目表》) (2016); Rules for Components and Calculation of Cost Items of Construction Projects in Shandong Province (《山東省建設工程費用項目組成及計算規則》) (2011)；

16. Circular on the Issuance of Implementation Opinion on the Adjustment on Basis of Pricing for Construction Projects after the Replacement of Business Tax with Value-added Tax in the Construction Industry by the Department of Housing and Urban-Rural in Shandong Province (《山東省住房和城鄉建設廳印發＜建築業營改增建設工程計價依據調整實施意見＞的通知》) (Lu Jian Ban Zi[2016] No. 20) (魯建辦字[2016]20 號);

17. Information on Project Costs in Zibo City for February 2018;

18. Mechanical and Electrical Products Quotations Manual in 2018 (《2018 年機電產品報價手冊》) by the Machinery Press;

19. Relevant Budgets and Final Accounts of the Project provided by the Evaluated Entity;

20. Statistics of the Payment Progress for Construction-in-progress and Relevant Proof of Payment provided by the Evaluated Entity;

21. Audit Report for the Previous Years, Operating Plans for the Future Years, Profitability Forecast and Other Information provided by the Evaluated Entity;

22. Information such as the Project Feasibility Research Report, Project Investment Budget, Design Budget provided by the Evaluated Entity;

23. Raw Material Purchase Contracts Entered into Between the Evaluated Entity and Related Entities;

24. Engineering Contracts Entered into Between the Evaluated Entity and Related Entities;

25. Other Related Valuation Information Recorded and Collected by Appraiser from On-site Survey;

26. Other Information related to this Asset Valuation;

27. Financial Statements, Information on Financial Affairs, Accounting and Operation, and Financial Information in relation to Agreements, Contracts and Invoices provided by the Evaluated Entity;

28. Statistics, Technical Standards Information and Price Information released by the State's Relevant Departments, together with the Relevant Price Inquiry Information and Price Determination Parameter Data collected by the appraised company.

VII. VALUATION METHODOLOGIES

(I) Introduction of valuation methodologies

The basic approaches used in the valuation of enterprise value include asset-based approach, income approach and market approach.

The asset-based approach used in the valuation of enterprise value, also known as the cost approach, is a valuation method by which the value of the valuation target is determined by assessing the values of every assets and liabilities items, both on-balance sheet items and identifiable off-balance sheet ones, on the basis of the balance sheet of the evaluated entity on the Benchmark Date.

The income approach used in the valuation of enterprise value refers to a valuation method for determining the value of valuation target by capitalizing or discounting the expected income. The specific methods commonly adopted by the income approach include dividend discount method and discounted cash flow method. The income approach measures the value of an enterprise from the perspective of its profitability and is based on the expected utility theory in economics.

The market approach used in the valuation of enterprise value refers to a valuation method for determining the value of valuation target by comparing the valuation target with comparable listed companies or comparable transaction cases. The two specific methods commonly adopted by the market approach are the listed company comparison method and the transaction case comparison method.

(II) Selection of valuation methodologies

The asset-based approach is a valuation method by which the value of the valuation target is determined by reasonably assessing the values of every assets and liabilities items, both on and off balance sheet, on the basis of the balance sheet. Taking into account the circumstances of this valuation, the evaluated entity can provide and the valuers can collect externally the information required by the asset-based approach, so that thorough investigation and valuation can be conducted on the assets and liabilities of the evaluated entity. Therefore, the asset-based approach is applicable to this valuation.

The income approach is based on the expected utility theory of economics. In other words, from the perspective of the investors, the enterprise value lies in the future income expected to be generated for the enterprise. Despite the absence of the direct use of comparable in the actual market for stating the prevailing fair market value of the valuation target, the income approach assesses the value of an asset by its expected profitability, which is the essential basis for determining the prevailing fair market value of the asset. As such, it can completely reflect the overall value of an enterprise and its valuation conclusion is more reliable and convincing. From the perspective of applicable conditions of the income approach, since the enterprise is profitable in its own right and the management of the evaluated entity has provided the profit forecast for the future years, according to the historical operating data of the enterprise and the internal and external operating environment, the future profit level of the enterprise can be reasonably forecasted. In addition, the risk related to future income can be reasonably quantified. Therefore, the income approach is applicable to this valuation.

The market approach evaluates the prevailing fair market value of the valuation target by referring to comparables in the market. Given the low level of marketization and informatization in China, it is difficult to accurately quantify and rectify the degree of similarity between the comparable listed companies (or the transaction cases) with the valuation target. As such, the accuracy of valuation results under the market approach is difficult to be measured in a precise manner. Further, valuation under the market approach is based on the time effect of capital market on the Benchmark Date, without regard to the cyclical fluctuation of the market. As such, the market approach is not applicable to this valuation.

(III) Specific valuation methodologies

I) Asset-based approach

The asset-based approach used for assessing the value of an enterprise is a valuation method where the value of the valuation target is determined on the basis of a reasonable valuation of various assets and liabilities of the enterprise based on its balance sheet as at the Benchmark Date. The valuation process of various assets and liabilities is stated as follows:

1. Valuation of current assets and liabilities

Current assets of the evaluated entity include currency funds, notes receivable, accounts receivable, prepayments, other receivables, inventories and other current assets; liabilities include short-term borrowing, tradable financial liabilities, notes payable, accounts payable, accounts received in advance, payroll payable, taxes and dues payable, interest payable, other payables, other current liabilities and other non-current liabilities.

(1) Currency funds: All being bank deposits, the appraised value of which was determined as the verified value which was arrived at after verification of bank reconciliation statements, bank confirmations, and other proofs. The appraised value of funds denominated in foreign currencies are translated into RMB at the exchange rate by the State Administration of Foreign Exchange as at the Benchmark Date.

(2) Notes receivable: Notes receivable refer to the commercial bills received by enterprises for selling products or rendering services, etc. All notes receivable in the scope of valuation are bankers' acceptance. For notes receivable, the appraisers checked the book records and the register of notes receivable while making inventories of and verified the notes. Corresponding sales contracts and delivery orders as well as other original records were also checked for certain notes receivable of large amount. The appraised value was then determined at the verified book value after verification.

(3) Accounts receivable and other receivables: All kinds of receivables are valued according to their likely recoverable amount on the basis that they have been verified. With regard to those receivables which are, with sufficient reason, believed to be fully recoverable, the appraised value is the total amount of the accounts receivable; with regard to the partial amount which is probably irrecoverable, in the event that it is difficult to confirm the amount of irrecoverable receivables, historical information and on-site investigation are used to familiarize the situation, specifically analyze the amount, time and reasons of loans, recovery of the amounts, as well as the capital, credit and current situation of operating management to determine the appraised value. Upon verification, no conclusive evidences have proven that the receivable cannot be recovered; therefore, the appraised value was determined as the verified book value.

(4) Prepayments: The appraised value shall be determined based on the estimated amount of corresponding assets and interests from recoverable goods, services received or recoverable currency funds. For recoverable goods or rights, the verified book value is taken as the appraised value. Where there is conclusive evidence that the corresponding goods cannot be recovered, or the corresponding assets or interests cannot be formed, the appraised value of such prepayments will be nil.

(5) Inventories

Purchased inventories: Mainly include materials purchased (materials in transit), raw materials and turnover materials in storage. For the purchased inventories with short inventory period, high marketability and stable market price, the verified book value is taken as the appraised value; For the purchased inventories with long inventory period, low marketability and fluctuating market price, the appraised value shall be determined at the prevailing price in the public market on the Benchmark Date plus any normal purchase cost.

Finished goods: Valuation methods applicable for finished goods include cost approach and market approach, whereas this valuation adopted the market approach. By market method, finished goods are valued by reference to their total costs plus the likely amount of profits to be arising from their sales, or the finished goods are valued below cost, depending on the market conditions of the particular finished goods. All finished goods in the scope of valuation are finished goods with normal sales. For products with normal sales, appraised value was determined by the appraisers according to the verified quantity and selling price of finished goods, with the tax-exclusive selling price, net of sales tax, sales expense, income tax and after-tax profit at an appropriate rate, to multiply the quantity of finished goods.

Goods in process: Upon verification, the cost of goods in process was carried forward in a timely and complete manner with an accurate amount, which was comprised of cost of raw materials for production, manufacturing cost, cost of ancillary materials and labour cost. Upon verification of the composition of cost and the accounting treatment, for the goods in process that are ready for subsequent production on a normal basis, appraisers noticed that their book values were basically reflected in the present values; therefore, their appraised values were determined as the verified book values; for the goods in process that are not ready for subsequent production on a normal basis, their appraised values were determined as recoverable values; the item of "provision for impairment" on the book was recognized as nil.

(6) Other current assets: For prepaid income tax, on the basis of verifying correctness, the appraisers verified the appraised company's tax forms by checking the tax types, tax rates, tax amounts and payment rates applicable to the enterprise, and ascertained the correctness and truthfulness of the amounts declared by reviewing the tax vouchers. The book value after verification is recognized as the appraised value.

(7) Liabilities: After reviewing and verification, liabilities are valued by reference to categories and amounts for which the appraised entities are liable after the valuation purpose has been realized. For liabilities for which the appraised entities will no longer be liable, the appraised value is nil.

2. *Valuation of non-current assets*

(1) Buildings (structures)

The replacement cost approach is mainly adopted for valuation of buildings (structures).

The replacement cost approach refers to an approach in which the practical value of the valuation target shall be measured at the total costs needed for repurchasing or building a brand-new valuation target under existing conditions minus physical depreciation, functional depreciation and economic degradation. The basic formula for the replacement cost is as follows:

Appraised value = full replacement price × comprehensive newness rate

Full replacement price = construction and installation cost (tax exclusive) + preliminary and other cost (tax exclusive) + capital cost

1) Determination of full replacement price

Full replacement price = construction and installation cost (tax exclusive) + preliminary and other cost (tax exclusive) + capital cost

① Determination of comprehensive construction, installation and design cost

When conducting valuation, the appraisers adopt various valuation methods to determine the construction and installation cost of the buildings (structures) to be assessed upon inspection of the physical conditions of such to-be-assessed buildings (structures), and examination of the readiness of the completed drawings, project settlement documents and report of the financial results. The general construction and installation cost is determined by adopting one or several among the re-budgeting method, project settlement adjustment method, comparable coefficient adjustment method and unilateral cost indicator estimation method, which is dependent on the conditions of to-be-assessed buildings (structures).

The following three methods were adopted in the valuation to determine the construction and installation cost of buildings (structures):

The re-budgeting method: Calculate the construction and installation cost of typical buildings (structures) as at the Benchmark Date upon re-compilation of the checklist for the volume of work based on the construction completion documents and completed drawings of the to-be-assessed buildings (structures) with reference to the on-site survey results, and in accordance with the prevailing fixed consumption quota for construction, decoration and installation projects in Shandong Province, the budget quota and charge quota for mine shaft construction project in the non-ferrous metals industry and related adjustment documents.

Comparable coefficient adjustment method: For buildings (structures) of which drawings and project settlement documents are incomplete, its construction and installation cost is arrived at by adopting the comparable coefficient adjustment method. It is calculated at the adjusted construction and installation cost of a typical project case after making comparison between the gross floor area, structural type, floor height, number of storey, span, materials, internal and external decoration, construction quality, repair and maintenance, etc. of such typical project case and those of the to-be-assessed buildings (structures) with reference to the calculated labour cost, material cost and growth rate of the machinery cost of such typical project case.

The unilateral cost indicator estimation method: For certain low-value or simple structured buildings (structures), the appraisers, upon comprehensive analysis, arrive at the construction and installation cost of such buildings (structures) by adopting unilateral cost indicators with reference to the previous experience from similar projects.

② Determination of preliminary and other cost

Preliminary and other cost mainly includes engineering investigation and design fee, project supervision fee, management fee of the contractor, project cost consultation service fee, construction supervision fee, environmental impact consultation fee, safety assessment fee, etc. The charging rates were calculated as follows:

Preliminary and Other Costs

No.	Item	Charge by project cost *(%)*	Charge by gross floor area *(RMB/sq.m.)*	Basis
1	Consultation fee at the preliminary phase of the project	0.10%		Fa Gai Jia Ge [2015] No. 299 and market-regulated price
2	Engineering investigation and design fee	2.50%		Fa Gai Jia Ge [2015] No. 299 and market-regulated price
3	Bidding agency service fee	0.25%		Fa Gai Jia Ge [2015] No. 299 and market-regulated price
4	Management fee of the contractor	1.50%		Cai Jian [2016] No. 504
5	Project cost consultation service fee	0.40%		Lu Jia Fei Fa [2007] No. 205
6	Construction supervision fee	1.50%		Fa Gai Jia Ge [2015] No. 299 and market-regulated price
7	Environmental impact consultation fee	0.20%		Fa Gai Jia Ge [2015] No. 299 and market-regulated price
8	Safety assessment fee	0.20%		Lu An Guan Xie Zi [2006] No. 4
9	Urban infrastructure facilities fee		80 (production)/ 205.8 (non-production)	Zi Zheng Fa [2008] No. 114
Total			5.30%	80/205.8

③ Capital cost

Capital cost refers to the financing cost of the funds occupied during the ordinary construction period of a building, which is the loan interest of the funds invested in the project during the construction period. According to the reasonable construction period of the project, the capital cost is determined on the basis of the sum of the construction and installation cost (tax inclusive) and the preliminary and other cost (tax inclusive) at the loan interest rate for the corresponding period of the Benchmark Date.

No.	Construction period	Loan interest rate announced on 24 October 2015
1	Within 0.5 year	4.35%
2	0.5 to 1 year	4.35%
3	1 to 3 years	4.75%
4	3 to 5 years	4.75%
5	Over 5 years	4.90%

Capital cost = (construction and installation cost (tax inclusive) + preliminary and other cost (tax inclusive)) × annual loan interest rate × construction period/2

④ Determination of VAT input tax credit

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of Replacing Business Tax with Value-added Tax (Cai Shui [2016] No. 36) (《關於全面推開營業税改徵增值税試點的通知》(財税[2016]36號)), since 1 May 2016, the pilot program of replacing business tax with VAT has been comprehensively promoting nationwide, in which all taxpayers in the construction, property, financial and life services industries are required to pay VAT instead of business tax.

General taxpayers with taxable activities are subject to the general tax calculation method. The deductible input VAT credit is calculated as follows:

VAT input tax credit for construction and installation cost = construction and installation cost (tax inclusive) ÷ (1+11%) × 11%

VAT input tax credit for preliminary and other cost = preliminary and other cost (tax inclusive) ÷ (1+6%) × 6%

No VAT is levied for the management fee of the contractor, for it is incurred by the enterprise itself.

2) Determination of comprehensive newness rate

① For high-value and important buildings (structures), the newness rate was determined based on both the surveyed newness rate and the newness rate over useful life. The calculation formula is as follows:

Comprehensive newness rate = surveyed newness rate × 60% + newness rate over useful life × 40%

In which: newness rate over useful life = (economic and durable years – the serviced life)/economic and durable years × 100%

In determining the on-site surveyed newness rate, construction completion documents of major buildings (structures) shall be inspected to learn about the maintenance, renovation and management history, while on-site survey shall be conducted to evaluate the three parts including structure, decoration and equipment of the such buildings (structures) with on-site survey lists filled in and calculate their respective surveyed newness rates.

② For simple structured buildings (structures) with low unilateral costs, the newness rate was determined based on useful life approach with adjustment according to the specific condition of such buildings (structures).

3) Calculation of appraised value

Appraised value = full replacement price × comprehensive newness rate

(2) Equipment

Equipment within the scope of valuation includes three major categories: machinery and equipment, transportation equipment and electronic equipment.

The replacement cost approach is mainly adopted for valuation of machinery and equipment. The replacement cost approach for valuation of machinery and equipment is used to determine the appraised value of machinery and equipment through estimating the updated replacement cost of brand-new machinery and equipment, with the deduction of the physical depreciation, functional depreciation and economic depreciation or on the basis of its determined comprehensive newness rate. Replacement value of equipment generally consists of all reasonable direct and indirect costs required for repurchasing or constructing brand new assets of the same functions with the valuation target, such as purchase price, transportation and miscellaneous cost, equipment foundation cost, installation and testing cost, preliminary and other cost as well as capital cost. The calculation formula adopted in the valuation is as follows:

Appraised value = replacement cost × comprehensive newness rate

1) Valuation of machinery and equipment

The replacement cost approach was adopted for the valuation of machinery and equipment. The calculation formula is as follows:

Appraised value = replacement value × comprehensive newness rate

① Determination of replacement value of machinery and equipment

Replacement value = purchase price of equipment + transportation and miscellaneous cost + equipment foundation cost + installation and testing cost + preliminary and other cost + capital cost – value-added tax deductible

i. Purchase price of equipment

Purchase price of equipment still in circulation on the market is determined directly by its prevailing market price; for equipment that is obsolete, with discontinued production or not in circulation in the market, the purchase price of the equipment to be appraised is analyzed and determined after taking comprehensive consideration of the differences in performance, technical parameters and useful functions relative to similar equipment.

ii. Transportation and miscellaneous cost

In this valuation, transportation and miscellaneous cost is calculated by different rates depending on the distance between the manufacturer and the location of the equipment as well as the equipment's weight, shape and size. According to the applicable price terms selected in quotation, transportation and miscellaneous cost will not be charged if it is included in the purchase price of equipment.

iii. Equipment foundation cost

It is calculated by different installation rates depending on the features of the equipment, on the basis of the purchase price and with reference to the Manual for the Latest Asset Evaluation Methodologies and Parameters (資產評估常用方法與參數手冊), but it is not considered in the calculation of full replacement price of equipment if separate equipment foundation is not needed.

iv. Installation and testing cost

Installation and testing cost is determined on the basis of purchase price, with reference to the Manual for the Latest Asset Evaluation Methodologies and Parameters and taking into account the features, weight and ease of installation of the equipment, and analysis of the previous expenses related to equipment installation of the ownership holder. The above cost will not be charged again if it is included in the purchase price of equipment.

For small equipment not requiring installation, installation and testing cost shall not be considered.

v. Preliminary and other cost

It refers to various expenses incurred (other than the construction and installation fee and the equipment installation fee) during the entire construction period from preparation to completion, acceptance, delivery and operation of the project, with the purpose of ensuring the smooth completion and normal function of the project after delivery and putting into operation. Preliminary and other cost include management fee of the contractor and consultation fee at the preliminary phase of the project, engineering investigation and design fee, construction supervision fee, project cost consultation service fee, bidding agency fee, safety assessment fee, environmental impact consultation fee, etc. Charging rates and basis for preliminary and other cost estimated in this valuation are set out in the table below:

Item	Calculation formula	Rate %	Basis for charging
Management fee of the contractor	(purchase price of equipment + transportation and miscellaneous cost + foundation cost + installation cost) × rate	1.50%	Cai Jian [2016] No. 504
Consultation fee at the preliminary phase of the project	(purchase price of equipment + transportation and miscellaneous cost + foundation cost + installation cost) × rate	0.10%	Fa Gai Jia Ge [2015] No. 299 and market-regulated price
Engineering investigation and design fee	(purchase price of equipment + transportation and miscellaneous cost + foundation cost + installation cost) × rate	1.60%	Fa Gai Jia Ge [2015] No. 299 and market-regulated price
Bidding agency fee	(purchase price of equipment + transportation and miscellaneous cost + foundation cost + installation cost) × rate	0.20%	Fa Gai Jia Ge [2015] No. 299 and market-regulated price
Environmental impact consultation fee	(purchase price of equipment + transportation and miscellaneous cost + foundation cost + installation cost) × rate	0.10%	Fa Gai Jia Ge [2015] No. 299 and market-regulated price

Item	Calculation formula	Rate %	Basis for charging
Safety assessment fee	(purchase price of equipment + transportation and miscellaneous cost + foundation cost + installation cost) × rate	0.10%	Lu An Guan Xie Zi [2006] No. 4
Project cost consultation service fee	(purchase price of equipment + transportation and miscellaneous cost + foundation cost + installation cost) × rate	0.20%	Lu Jia Fei Fa [2007] No. 205
Construction supervision fee	(purchase price of equipment + transportation and miscellaneous cost + foundation cost + installation cost) × rate	1.50%	Fa Gai Jia Ge [2015] No. 299

vi. Capital cost

The capital cost was calculated evenly over the construction period according to the reasonable construction period of the project and based on the loan interest rate applicable as at the Benchmark Date. The calculation formula is as follows:

Capital cost = (purchase price of equipment + transportation and miscellaneous cost + installation and testing cost + foundation cost + other cost) × loan interest rate × construction period × 1/2

According to the features of equipment and investment scale of the ownership holder, the reasonable construction period of the project was determined to be 1.5 years, and the interest rate for 1.5-year loans announced by the People's Bank of the PRC as at the Benchmark Date was 4.75%.

vii. Value-added tax deductible

In accordance with relevant provisions of the State, value-added taxes are calculated at the tax rates of 17% for purchase price of equipment, 11% for transportation, foundation and installation costs, and 6% for other costs, with output VAT deductible; while value-added tax is not levied for the management fee of the contractor and capital cost and therefore is not deductible.

② Determination of comprehensive newness rate

For large and key equipment, the newness rate was determined based on both the surveyed newness rate and the theoretical newness rate according to the weight:

Comprehensive newness rate = surveyed newness rate × 0.6 + theoretical newness rate × 0.4

i. Surveyed newness rate

The surveyed newness rate is determined mainly according to the actual conditions of the equipment of the enterprise, by on-site surveying and scoring various aspects of the equipment one by one, including technical conditions, work environment surrounding the equipment, and maintenance of the equipment.

ii. Theoretical newness rate

Theoretical newness rate is determined by reference to the economic service life (or remaining service life) and the serviced life of the equipment.

Theoretical newness rate = (economic service life – serviced life)/economic service life × 100%

For equipment whose serviced life were longer than the economic service life, the following formula was applied:

Theoretical newness rate = remaining service life/(serviced life + remaining service life) × 100%

iii. Determination of the appraised value

The appraised value = full replacement price × comprehensive newness rate

2) Valuation of vehicles

The market comparison approach is a valuation method based on the substitution principle. According to the substitution principle, a comparison is made between the to-be-assessed vehicles and similar vehicle transaction cases in the recent period, and the relevant factors are adjusted to arrive at the market value of such to-be-assessed vehicles as at the Benchmark Date. According to the specific purpose of the valuation and the features of the to-be-assessed vehicles, for the to-be-assessed vehicles which were purchased a long time ago and ceased to be produced, their market value is determined by mainly adopting the market comparison approach. The calculation formula is as follows:

Comparative and corrective price = comparable case price × correction coefficient of service life of vehicles × correction coefficient of mileage of vehicles × correction coefficient of inspected vehicle situation × correction coefficient of transaction price

Appraised value of vehicles based on market approach = average comparative and corrective price = (Case A + Case B + Case C) ÷ 3

3) Valuation of electronic equipment

① Determination of full replacement price for electronic equipment

Electronic equipment represents mostly office equipment such as computers, printers, kitchenware, office furniture, televisions, monitors, instruments and meters. The distributors of the electronic equipment undertake the delivery and installation of such equipment. Their replacement cost is valued by direct reference to their purchase price.

② Determination of newness rate

For electronic equipment and office equipment, their comprehensive newness rate is determined mainly according to their economic service life. For large electronic equipment, when determining their newness rate, the appraisers also take into full account other factors including the work environment surrounding the equipment and the operating conditions of the equipment.

③ Determination of appraised value

Appraised value = replacement cost × newness rate

For electronic equipment which were purchased a long time ago, ceased to be produced and have no comparable prices, they are valued mainly by reference to second-hand transaction prices using the market approach.

(3) Construction in progress

Replacement cost approach is applied in the valuation of construction in progress. To avoid repeated valuation and omission of asset value, the following valuation approaches were adopted in light of the characteristics, the type and specific conditions of construction in progress:

For construction in progress whose commencement date was within half a year after the Benchmark Date, the appraised value shall be determined based on the reported amount of the construction in progress, being the residual value after excluding unreasonable expenses upon accounting treatment and verification.

For construction in progress whose commencement date is over half a year after the Benchmark Date, the management fee of the contractor and the capital cost were included in this valuation, for the book value excludes such two items. The formula is as follows:

Appraised value of uncompleted projects = construction fees paid + management fee of the contractor + capital cost

Capital cost = (construction fees paid + management fee) $\times$ interest rate $\times$ construction period $\div 2$

Where: the loan interest rate was determined at the prevailing lending rate published by the People's Bank of China as at the Benchmark Date; the construction period was reasonably determined by the project scale and the actual completion rate, with reference to working-day norm of such project.

(4) Land use right

Pursuant to the "Regulations for Appraisal of Urban Land", the basic valuation approaches adopted for appraising the value of land include income capitalization approach, market comparison approach, cost approximation approach, residual approach and benchmark land price coefficient correction approach.

1) Inapplicable valuation approaches

The valuation target is industrial land with specific regulations on its purposes. In the meantime, the majority of its buildings are industrial plants and ancillary buildings with distinctive uses and scarcely any purchasers. As there are no similar property development projects and market transactions within Shandong province in recent years, it is impossible to confirm its potential for development. Based on its fundamental principles, the residual approach is not applicable when development value of the evaluation target is indeterminable.

The valuation target is industrial land, and it is difficult to segregate revenues and fees of the valuation target from the overall industrial production income to measure its profitability. Based on its fundamental principles, the income capitalization approach is not applicable when no considerable income can be measured;

Land market around the location of the valuation target is relatively active, so the cost approximation approach would not fully reflect the fair value of the land market in such areas. Therefore, the cost approximation approach is not adopted.

The Benchmark Date of the applicable benchmark land price for Zhangdian District is 1 January 2016, which is a relatively long period from the Benchmark Date; therefore, the benchmark land price coefficient correction approach is not applicable.

2) Applicable valuation approaches

The market comparison approach is applicable where there are recent and similar transactions available for reference in surrounding areas of the valuation target, and the land market is relatively mature, in which sufficient examples can be collected within the same supply and demand circle.

The market comparison approach measures the objectively reasonable price or value of the valuation target by comparing the valuation target with similar lands that are traded around the Benchmark Date and appropriately adjusted the known prices of such similar lands.

1) Collecting transaction cases;

2) Selecting comparable cases;

3) Establishing comparable basis for price;

4) Correcting the transaction status;

5) Adjusting the transaction date;

6) Adjustment made in light of location factors;

7) Adjustments in light of the unique individual factors;

8) Obtaining comparative and corrective price.

(5) Other intangible assets

Other intangible assets consist mainly of licensed technology use rights and SAP software. Based on the review of accounts, original evidences and relevant contracts, the appraisers have verified the legality, rationality, authenticity and accuracy of its occurrence, and determined its appraised value with the verified amortized value.

(6) Deferred income tax assets

Based on the review of accounts and original evidences, the appraisers has verified the legality, rationality, authenticity and accuracy of its occurrence, and regarded the value of assets and rights attributable to the evaluated entity after the Benchmark Date as the appraised value.

II) Income approach

The income approach used for this valuation is discounted cash flow method. Free cash flows of the enterprise were chosen, which indirectly acquired the value of entire shareholders' equity through valuating the overall value of the enterprise.

This valuation was based on net free cash flows of the enterprise within the incoming several years. The value of the overall operating assets of the enterprise was calculated by totaling such net free cash flows discounted at an appropriate discount rate. Then, the value of the entire shareholders' equity was obtained by adding the value of excess assets and non-operating assets minus interest-bearing debts.

1. Calculation model

$E = V - D$ *Equation 1*

$V = P + C_1 + C_2 + E'$ *Equation 2*

Where:

E: value of the entire shareholders' equity;

V: overall value of the enterprise;

D: appraised value of interest-bearing debt;

P: appraised value of operating assets；

C_1: appraised value of excess assets;

C_2: appraised value of non-operating assets;

E': appraised value of long-term equity investment (not considered in cash flow).

Where: appraised value of operating assets P in Equation 2 is obtained according to the following equation:

$$P = \sum_{t=1}^{n}\left[R_t \times (1+r)^{-t}\right] + \frac{R_{n+1}}{(r-g)} \times (1+r)^{-n} \qquad \textit{Equation 3}$$

The first half of the equation is the value for an explicit forecast period while the second half is the perpetuity value (ultimate value).

In Equation 3:

R_t: free cash flow of the enterprise in explicit forecast period (t);

t : explicit forecast period, 1, 2, 3, ..., n;

r: discount rate;

R_{n+1}: free cash flows of the enterprise in perpetuity period;

g: growth rate in perpetuity period; in this valuation, g=0;

n: the last year in the explicit forecast period.

2. *Determination of key parameters in the model*

1) Determination of expected income

In this valuation, free cash flows of the enterprise were regarded as the quantitative indicator of expected income of the enterprise.

Free cash flows of the enterprise represent all cash flows after the payment of operating expenses and income tax and before the payment of cash to claimers of rights of the appraised company. Set forth below is the calculation equation:

Free cash flows of the enterprise = net profit after tax ＋ depreciation and amortization + interest expense × (1- tax rate T) – capital expenditure – changes in working capital.

2) Determination of income period

Income period in enterprise valuation generally refers to the number of years for an enterprise obtaining incomes in the future. In order to reasonably forecast the future income of the enterprise, income period of the enterprise can be divided into limited period and unlimited period according to production and operation characteristics of the enterprise, and relevant laws and regulations, agreements, contracts, etc.

Recent income of the enterprise can be reasonably forecasted relatively and forecast of long-term income is of a lower rationality, therefore, according to general valuation practice, appraisers have divided the income period of the enterprise into explicit forecast period and post-explicit forecast period. In valuation: value of operating business = value in explicit forecast period + value in post-explicit forecast period (ultimate value).

3) Determination of discount rate

Discount rate can be determined by many methods and means. Based on the principle of consistent income amount with discount rate specification, free cash flows of the enterprise were chosen as the income amount specification in this valuation, and discount rate was determined based on weighted average cost of capital (WACC).

4) Determination of appraised value of interest-bearing debts

Interest-bearing debts include long-term and short-term borrowings of the enterprise, and appraised values were determined based on their market values.

5) Determination of appraised value of excess assets and non-operating assets (liabilities)

Excess assets refer to unwanted assets not directly relating to the income of the enterprise and exceeding the operating needs of the enterprise, and generally refer to excess currency funds, trading financial assets, etc. Non-operating assets refer to assets not directly relating to the income of the enterprise and not generating benefits. Such assets were valuated separately.

VIII. IMPLEMENTATION AND PARTICULARS OF VALUATION PROCEDURES

According to the regulations on asset valuation and general principles on financial accounting of relevant state department and relevant legal provisions and standard requirements of relevant state department, and as agreed with the client in the asset valuation commission contract, Shandong Tian Jian Xing Ye Asset Valuation Company Limited has performed verification and auditing on the legal documents, accounting records and relevant data provided by the client, and has implemented necessary property right examination, field survey and verification to relevant assets according to the list of assets provided by the evaluated entity, and has conducted necessary market research and trading price comparison, as well as financial analysis and forecast and other necessary asset valuation procedures. Detailed asset valuation procedures are as follows:

1. Stage of Acceptance of Engagement and Preparation

(1) Shandong Tian Jian Xing Ye Asset Valuation Company Limited accepted the commission by the client in April 2018 to carry out this asset valuation project. Upon the acceptance of engagement, Shandong Tian Jian Xing Ye Asset Valuation Company Limited held proper discussion with the client on various key issues, including the purpose, valuation target and scope of valuation, the Benchmark Date of this valuation, characteristics of assets entrusted for valuation.

(2) Statements for asset valuation and declaration were arranged based on the characteristics of assets entrusted for valuation. In addition, Survey Form of Major Assets, Survey Form of Profitability of Main Business, etc. have been prepared. The client's personnel engaging in this asset valuation have been trained on the business to complete Asset Valuation Inventory Form and various survey forms.

(3) Design of Valuation Plan

According to the characteristics of the assets, the implementation plan for this valuation was formulated, the appraisers were determined and the on-site working group for asset valuation was formed.

(4) Preparation of Valuation Materials

Information about market trading prices and market prices of major raw materials, and property ownership certificates of the valuation target, etc. were collected and organized.

This work stage lasts from 3 April 2018 to 4 April 2018.

2. Stage of On-site Examination

(1) Verification of Authenticity and Legality of the Valuation Target

According to the statements for asset and liability declaration provided by the client and the evaluated entity, appraisers used different verification methods for verifying physical assets, monetary creditor's rights and debts, in order to confirm that assets and liabilities were true and accurate.

We investigated currency funds by checking journals, auditing bank statements, bank reconciliation and other means;

In respect of creditor's rights and debts, appraisers confirmed the truthfulness of assets and liabilities by checking the general ledger, subsidiary ledger, and selectively examining contract documents and other means.

In investigating fixed assets, the principle of combination of focused and general investigations was used. Focused investigations were carried out to buildings, major equipment and other assets. Appraisers confirmed the truthfulness of assets by checking the design, construction documents and project contracts, settlement of project funds, contracts and invoices for purchasing equipment, etc.

(2) Investigation into the Actual Conditions of Assets

In investigating the operating condition of equipment, the principle of combination of focused and general investigations was used. Focused investigations were carried out to machinery and equipment for production and mainly involved checking the operating records of equipment, as well as field observation of operating conditions of equipment under the collaboration of equipment management personnel of the evaluated entity. Survey Form of Major Equipment was further completed based on the investigation.

(3) Investigation into the Value Composition of Physical Assets and Business Development

Appraisers investigated into the rationality and compliance of the asset value composition of the evaluated entity according to the characteristics of assets. Focused investigations were carried out to the truthfulness, accuracy, completeness and compliance of book values of fixed assets. Appraisers checked relevant accounting documents, accounting books, final building cost, project construction contracts, equipment procurement contracts and other data.

(4) Investigation into the Production and Operation Condition of the Enterprise, Including Income and Costs

Appraisers collected the profit and loss accounting data of relevant units in previous years for calculation and analysis; appraisers investigated into the actual operating condition of relevant units and business and the composition of their incomes, costs and expenses and future development trend through interview and other means, to facilitate preparing future cash flow forecast.

Appraisers analyzed and forecasted the market environment, future competition, development trend, etc. of various business of DSM Company through collecting relevant information.

This work stage lasts from 10 April 2018 to 20 April 2018.

3. Selection of Valuation Methods, Collection of Market Information and Process of Estimate

Upon defining valuation parameters and price standards on site according to the work plan developed based on the characteristics of the project and the pricing principles and valuation models determined based on actual conditions, appraisers commenced valuation and estimate with reference to the historical data and future operation forecasting data provided by the enterprise.

4. Stage of Result Analysis and Summary

(1) Determination of Valuation Results

According to the survey on the valuation sites and necessary market research and estimate conducted by appraisers of Shandong Tian Jian Xing Ye Asset Valuation Company Limited, results of asset-based approach and income approach of the assets entrusted for valuation were determined.

(2) Analysis of Valuation Results and Preparation of Valuation Report

Relevant asset valuation report was prepared according to the standard requirements of Shandong Tian Jian Xing Ye Asset Valuation Company Limited. Valuation results and relevant asset valuation report have been subject to three-tier review in accordance with the specified procedures of Shandong Tian Jian Xing Ye Asset Valuation Company Limited. The final report was completed and submitted by the project team after the report was reviewed by undersigned asset appraisers without any error.

(3) Organization and Filing of Working Papers

The above Stage 3 and Stage 4 last from 21 April 2018 to 8 May 2018.

IX. VALUATION ASSUMPTIONS

(I) General Assumptions:

1. Transaction assumption: It is assumed that all assets to be valued are in the process of transaction, and valuers will make estimation in a simulated market according to the transaction conditions of assets to be valued.

2. Open market assumption: Open market assumption is a supposition about conditions of the market where the asset is proposed to be traded and the impact on the asset under such market conditions. An open market refers to a competitive market with fully developed and improved market conditions and with willing transaction parties. In the market, the transaction parties are equal and have enough opportunity and time to access the market information. Transactions between parties are made under willing, rational, non-mandatory and unrestricted conditions.

3. Continued use assumption: Continued use assumption is a supposition about the conditions of the market where the asset is proposed to be traded and the asset state of the asset under such market conditions. First, the asset valuated is in use; second, the asset assumed in use will continue to be used. Under the continued use assumption, the application of the valuation results is limited due to ignorance of conversion of purpose or the best utilization condition of the asset.

4. Going-concern assumption: It is an assumption based on the valuation that takes the overall assets of the enterprise as the valuation target. That is to say, the enterprise, as a business entity, will continuously operates in the established external environment for its business objectives. Business operators should and are able to assume responsibilities; the enterprise operates legally and is able to obtain appropriate profits to maintain its going-concern capability.

(II) Assumptions based on Income Approach:

1. It is assumed that there are no material changes in the relevant existing laws, regulations and policies, macroeconomic conditions of the State, and local political, economic and social environment of such places where the parties to the transaction are operating; there are no other unforeseeable or force majeure that will cause material adverse impact.

2. It is assumed the enterprise will continue to operate as a going concern in light of the actual condition of the assets as at the Benchmark Date.

3. It is assumed that the operators of the appraised company are responsible and the management of the appraised company is competent.

4. It is assumed that operating period of the appraised company will expire in February 2030 according to Joint Venture Agreement, Articles of Association, resolutions of general meetings, the Approval of the Economic Development Administration of Zibo High-tech Industrial Development Zone Zi Gao Xin Jing Wai Zi Fa [2007] No. 18, and this forecast period is as of February 2030.

5. It is assumed that the supply market of main raw materials will remain stable, without substantial changes.

6. It is assumed that there are no substantial changes in national policies on restricting antibiotics after the Benchmark Date.

7. Unless otherwise stated, it is assumed that the appraised company fully complies with all relevant laws and regulations.

8. It is assumed that the accounting policies to be adopted by the appraised company in the future are consistent with the accounting policies adopted in the preparation of this report in material aspects.

9. It is assumed that the scope of business and the mode of operation of the appraised company are consistent with the current direction based on existing management mode and management level.

10. It is assumed that there are no material changes to relevant interest rates, exchange rates, tax bases, tax rates and policy-based levies.

11. It is assumed that there is no force majeure or unforeseeable factors that may materially and adversely affect the enterprise.

12. It is assumed that the cash flows of the enterprise in forecasting years are incurred in relevant periods.

13. It is assumed that the existing market competition situation of the products or services of the enterprise will maintain after the Benchmark Date.

14. It is assumed that the current R&D capability and technological advancement of the enterprise will maintain after the Benchmark Date.

15. It is assumed that the drug production and marketization permits of the evaluated entity will be renewed after review upon the expiration date.

16. It is assumed that the evaluated entity will apply for review and pass certification upon the expiration of GMP certification.

17. It is assumed that there are no substantial changes in main investment business personnel that will affect the changes in operations of the evaluated entity within its future income period, and the management team will be in steady development.

18. It is assumed that the taxable amount of income of the enterprise in the future income period is consistent with the total profit, and there are no substantial adjustments to permanent difference and timing difference.

X. VALUATION CONCLUSIONS

(I) The valuation conclusions based on the asset-based approach

Based on the asset-based approach, the book value and the appraised value of total assets of DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. were RMB394,193,800 and RMB437,386,000, respectively, representing an appreciation of RMB43,192,200 or 10.96%; the book value and the appraised value of total liabilities were RMB241,253,700 and RMB227,283,800, respectively, representing a depreciation of RMB13,969,900 or 5.79%; and the book value and the appraised value of its net assets were RMB152,940,100 and RMB210,102,200, respectively, representing an appreciation of RMB57,162,100 or 37.38%.

The summary of the valuation results is set out as follows:

Summary of Asset Valuation Results

Unit: RMB0'000

Item	Book value	Appraised value	Appreciation/ Depreciation	Appreciation rate
				%
Current assets	21,859.90	22,191.49	331.59	1.52
Non-current assets	17,559.48	21,547.11	3,987.63	22.71
Including: Long-term equity investments	–	–	–	
Investment property	–	–	–	
Fixed assets	9,928.48	13,857.19	3,928.71	39.57
Construction in progress	1,864.26	1,933.23	68.97	3.70
Intangible assets	5,345.30	5,684.50	339.20	6.35
Including: land use right	2,783.60	3,122.80	339.20	12.19
Others	421.44	72.19	-349.25	-82.87
Total assets	39,419.38	43,738.60	4,319.22	10.96
Current liabilities	22,759.84	22,728.38	-31.46	-0.14
Non-current liabilities	1,365.53	–	-1,365.53	-100.00
Total liabilities	24,125.37	22,728.38	-1,396.99	-5.79
Net assets	15,294.01	21,010.22	5,716.21	37.38

Note: For detailed information of the valuation results, please refer to the Detailed Statement of Asset Valuation.

(II) The valuation results based on the income approach

Upon valuation based on the income approach, the value of the entire equity interest in DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd. was RMB36,603,200, representing a depreciation of RMB116,336,900 or 76.07%.

(III) Finalization of the valuation results

The valuation results based on the income approach are susceptible to the future profitability, quality of assets, operational abilities and operational risks of the enterprise, while the future profitability is subject to significant uncertainties, as DSM Sinochem Pharmaceuticals (Zibo) Co., Ltd., an asset heavy manufacturing company, is influenced by national policies on restricting antibiotics, which would result in idle production capacity of certain amount. The asset-based approach can reflect the fair market value of the assets from an asset replacement perspective. We had conducted a comprehensive review and valuation on the assets and liabilities of the evaluated entities in accordance with the actual situations of this valuation, and based on the detailed information on assets and liabilities provided by the evaluated entity and any necessary information valuers collected for the asset-based approach; relatively speaking, the results based on the asset-based approach are considered more reliable. Accordingly, the results based on the asset-based approach are chosen as the final valuation conclusions in this valuation.

XI. SPECIAL NOTES

The following issues are beyond the practicing standards and capabilities that can be estimated by the appraised company's appraisers, but these issues may actually have impacts on the valuation conclusions. Users of this valuation report should pay particular attention to:

(I) The "appraised value" referred to herein is a fair valuation presented for the purpose set out expressly herein on the assumption that the assets entrusted for evaluation maintain their uses on a going concern basis with conditions and external economic environments on the Benchmark Date, which shall bear no liability for any other purposes.

(II) The valuation conclusions in the report reflect the fair value of the valuation target for the purpose of this valuation on the basis of an open market, and do not include any fees or taxes that shall be borne in the ownership registration or change of relevant assets or make no tax adjustments for the value addition of the asset evaluation. The valuation conclusions shall not be deemed as a guaranteed realizable price of the valuation target.

(III) Buildings (structures)

1. Seven properties of DSM included in the scope of valuation have not obtained the property ownership certificates. In this valuation, the construction drawings and results of on-site measurement by the appraisers and asset management personnel shall be regarded as the basis for the valuation and calculation of the gross floor areas of such seven properties. Upon receipt of the property ownership certificates by the appraised company, adjustments shall be made to the valuation conclusion according to the areas set out on the certificates.

2. The Cefradine plant, located in No. 14 Dongyi Road, Zhangdian District and with a gross floor area of 2,723.25 sq.m., is owned by Shandong Xinhua Pharmaceutical Group Company Limited in terms of its occupied land, and used by DSM at nil consideration. The impact of the remaining useful life of the land on the valuation conclusion is not taken into consideration in this valuation.

(IV) Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates, since 1 May 2018, for taxpayers engaged in VAT taxable sales activities and import of goods, the original applicable tax rates, being 17% and 11%, have been adjusted to 16% and 10%, respectively. This valuation does not consider the impact of the new VAT rate policy effected since 1 May 2018 on the valuation conclusions in respect of inventory, buildings (structures), machinery and equipment, electronic equipment and construction in progress.

(V) Premiums or discounts caused by factors such as controlling interest and minority interest have not been taken into consideration in this valuation report, nor has the effect of the liquidity on the value of valuation target.

(VI) Where there are any changes in the quantity of assets and price standards within the effective term of the asset valuation conclusions, proper adjustments shall be made to the valuation conclusions instead of direct utilization.

From the Benchmark Date to the date of issuance of the valuation report, there were no other significant issues that have affected the valuation preconditions and conclusions, which have resulted in necessity for adjustments to valuation conclusions.

XII. STATEMENT OF RESTRICTIONS ON THE USE OF THE VALUATION REPORT

(I) This valuation report can only be used for the purpose as described in the valuation report;

(II) The asset evaluation agency and its asset valuers shall not be held liable for any use of the asset valuation report by the client or other report users in breach of the laws, administrative regulations and out of the user range set out in the asset valuation report;

(III) Except for the client, other users of the asset valuation report as agreed in the entrustment contract on asset valuation and users of the asset valuation report as set out under the laws and administrative rules and regulations, no other institutions and individuals can be the users of the asset valuation report;

(IV) Users of the asset valuation report shall correctly acknowledge the conclusion of the valuation, which should not be viewed as the realizable value of the valuation target nor should it be deemed to be a guarantee for the realizable value of the valuation target;

(V) This valuation report shall be submitted to the state-owned assets supervision and administration departments or the responsible departments of enterprise for approval, which can be duly used only after the filing procedure was made;

(VI) Before any part or all of the contents of this valuation report is extracted, quoted or disclosed to the public media, the related content shall be reviewed by the evaluation agency, unless required by the laws and regulations and otherwise agreed by the relevant principals;

(VII) The valuation conclusions shown herein shall only be valid for the economic activities in connection with this project. The validity period of the conclusion of asset valuation is one year commencing from the Benchmark Date, which is from 28 February 2018 to 27 February 2019. The valuation conclusions may serve as a basis for reference in the process of achieving the purpose of valuation during validity period. The assets shall be subject to re-valuation after one year.

XIII. DATE OF THE ASSET VALUATION REPORT

The date of the asset valuation report is 8 May 2018.

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 the omission of which would make any statement herein or this circular misleading.

2. INTERESTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, the following Directors and Supervisors were interested in the securities of the Company:

Name	Personally held (A Share)	Interested as an ESOS participant (A Share)	Interested as a participant and a grantee under the Share Option Scheme (Option)	Percentage of the total issued Shares as of the Latest Practicable Date (%) (Note 1)
Directors				
Zhang Daiming	15,470	174,888	300,000	0.079
Ren Fulong	0	58,296	270,000	0.053
Du Deping	0	151,568	270,000	0.068
Xu Lie	0	81,614	220,000	0.049
Supervisors				
Li Tianzhong	0	93,272	0	0.015
Hu Yanhua	0	34,977	0	0.006

Notes:

1. Rounded to the nearest three decimal places.

2. The interests disclosed herein are all long positions.

Save as disclosed above, no Director, Supervisor or chief executive 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 Hong Kong Stock Exchange 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 Hong Kong Stock Exchange.

3. MATERIAL INTEREST

As at the Latest Practicable Date, save as disclosed, none of the Directors had a material interest in the DSM Zibo Acquisition.

As at the Latest Practicable Date, none of the Company, its holding company and fellow subsidiaries 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.

4. 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.

5. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors, the persons (other than a Director, a Supervisor or chief executive of the Company) who had an interest or a short position in the Shares or 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 was (other than HKSCC (Nominees) Limited), 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:

Name of Shareholder	Class of Shares	Number of Shares held	Percentage of the total issued Shares *(%)*
SXPGC	A Shares	204,864,092	32.94

SXPGC is a wholly state-owned company and a wholly-owned subsidiary of HHGC. As of the Latest Practicable Date, HHGC held also 100% equity interests in China Shandong Group Limited and Shandong Hualu International Business Center Limited Company, which in turn held 99.91% and 0.09% shareholding in Well Bring Limited respectively. Well Bring Limited owned 17,791,800 H Shares or approximately 2.86% of the total issued Shares of the Company as of the Latest Practicable Date.

Mr. Zhang Daiming is the chairman of the Company and is also the chairman of SXPGC. Mr. Ren Fulong, a Director of the Company, is also a director and the general manager of SXPGC. Mr. Xu Lie, a Director of the Company, is also a director and the chairman of labour union of SXPGC. Mr. Zhao Bin, a Director of the Company, is also the assistant general manager and the director of discipline inspection and supervision of HHGC. Mr. Li Tianzhong, a Supervisor of the Company, is also a deputy general manager of SXPGC.

6. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the overall financial or trading position of the Group since 31 December 2017, 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.

7. PROFESSIONAL PARTIES AND CONSENT

The following parties have given and have not withdrawn their written consents to the issuance of this circular with the inclusion of their statements and reference to their names in the forms and contexts in which they appear:

Name	Qualification
Hologram Capital Limited	a licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO
Shandong Tian Jian Xing Ye Asset Valuation Company Limited	PRC qualified valuer

To the best knowledge of the Directors, as at the Latest Practicable Date, the Independent Financial Adviser and the Valuer 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, the Independent Financial Adviser and the Valuer 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 2017, 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. VOTE BY POLL

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

10. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the Agreement will be made available for inspection at the office of Charltons, 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 general holidays) from the date of this circular up to and including the date of the EGM.