WUXI APPTEC CO., LTD.*
無錫藥明康德新藥開發股份有限公司

(the "Company")

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2359)

OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is made by the Company in accordance with Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Set out below is a translation of the full text published by the Company on the Shanghai Stock Exchange for illustrative purpose only.

By Order of the Board
WuXi AppTec Co., Ltd.
Dr. Ge Li
Chairman

Hong Kong, March 25, 2020

As of the date of this announcement, the Board of the Company comprises Dr. Ge Li, Mr. Edward Hu, Mr. Xiaozhong Liu, Mr. Zhaohui Zhang and Dr. Ning Zhao as executive Directors, Mr. Xiaomeng Tong and Dr. Yibing Wu as non-executive Directors and Dr. Jiangnan Cai, Ms. Yan Liu, Mr. Dai Feng, Dr. Hetong Lou and Mr. Xiaotong Zhang as independent non-executive Directors.

* *For identification purpose only*

Stock Code: 603259 Stock Abbreviation: WUXI APPTEC

WUXI APPTEC CO., LTD.

2020 Plan for Private Placement of A-shares

March 2020

Statement of Issuer

The Company and all members of the Board of Directors guarantee that the contents of the Plan for Private Placement of A-shares are true, accurate and complete, and there are no false representations, misleading statements or material omissions.

Upon the completion of the private placement of A-shares, the Company shall be responsible for any change to its operation and revenue, while the investment risks caused by the private placement shall be borne by the investors.

The Plan for Private Placement of A-shares is the statement of the Board of Directors on the private placement of A-shares. Any statement to the contrary is a misrepresentation.

The items mentioned in this plan do not represent the substantive judgment, confirmation, approval or authorization of the approving authorities on the issues related to the private placement of A-shares. The effectiveness and completion of the private placement of A-shares mentioned in this plan are subject to the deliberation and approval of the general meeting of the Company and the approval or authorization of the approving authorities.

Investors should consult their own stockbroker, lawyer, professional accountant or other professional consultant if in doubt.

Special Note

1. The private placement of A-shares has been deliberated and approved at the 39th meeting of the first board of directors and the annual meeting of the board of directors for 2019 on March 24, 2020. According to the Company Law, the Securities Law, the Administrative Measures, the Implementation Rules and other relevant laws and regulations and normative documents, the private placement of A-shares shall be submitted to the general meeting of the Company for deliberation and approved by the CSRC before they can be implemented.

2. The number of shares issued in the private placement of A-shares shall not exceed 75,000,000 shares (inclusive of 75,000,000 shares), and the total amount raised shall not exceed RMB 6,527.94 million (inclusive of RMB 6,527.94 million). The actual number of shares issued in the private placement of A-shares shall be rounded to the ones place (with the calculation rounded down), and subject to the approval document of the CSRC.

The final offering size will be determined by the Board of Directors of the Company and the authorized persons of the Board of Directors authorized by the general meeting, and the sponsor and the lead underwriter through consultation based on the offering size limit approved by the CSRC and the subscription quotation of the target subscribers in compliance with relevant regulations, after the Company obtains the approval of the CSRC on the private placement of A-shares.

The maximum number of shares to be issued in the private placement in A-shares shall be adjusted based on the formula below in cases of ex-rights matters such as bonus issuance and conversion of capital reserve into share capital during the period from the date of the resolution(s) approved by the Board in connection with the private placement in A-shares to the date of the issuance.

QA1=QA0*(1+EA)

Where,

QA1 is the maximum number of A Shares to be issued after adjustment, QA0 is the maximum number of A Shares to be issued before adjustment, and EA is the number of bonus Shares or rights issue Shares.

If the regulatory authorities, such as the CSRC, adjusts the offering size, the size approved by the relevant authority shall prevail.

3. On March 24, 2020, the 39th meeting of the first session of the Board of the Company and the annual meeting of the Board of 2019 approved the private placement of not more than 68,205,400 new H Shares (inclusive of 68,205,400 shares) to selected subscribers (the “Additional Issue of H Shares”).

The final number of shares to be issued in the Additional Issuance of H Shares shall be determined by the Board as authorized by the general meeting or authorized persons designated by the Board according to legal requirements and approval by regulatory authorities with reference to market conditions.

If the shares of the Company are subject to ex-rights matters such as bonus issuance and conversion of capital reserve into share capital during the period from the date of the announcement of the resolution of the Board to the issue date, the maximum number of shares to be issued in the Additional Issue of H Shares will be adjusted with the share capital of the Company after such ex-rights matters. The adjustment formula is as follows:

QA1=QA0*(1+EA)

Where,

QA1 is the maximum number of H Shares to be issued after adjustment, QA0 is the maximum number of H Shares to be issued before adjustment, and EA is the number of bonus Shares or rights issue Shares.

If the CSRC or the Hong Kong Stock Exchange adjusts the offering size, the size approved by the relevant authority shall prevail.

The proposal of the Additional Issue of H Shares of the Company shall be subject to the consideration and approval of the shareholders' general meeting, the A Share class meeting and the H Share class meeting of the Company.

The number of Shares to be issued under the Private Placement of A-shares and Additional Issue of H Shares in aggregate will not be more than 8% of the total share capital of the Company as enlarged by the Private Placement of A-shares and Additional Issue of H Shares, taking into account only the issue of additional shares through the capitalization of surplus reserve pursuant to a resolution "profit distribution for 2019 and capitalization of capital reserve" passed at the 39th meeting and the annual meeting of the first session of the Board of the Company and not other events which may change the share capital.

4. Target subscribers of the Private Placement of A-shares are up to 35 specific investors. The specific investors must be the qualified securities investment fund management companies, securities companies, trust companies, finance companies or insurance institutional investors, qualified foreign institutional and other legal person, natural person or institutional investors who meet the conditions specified in the relevant laws and regulations. Where a securities investment fund management company, a securities company, a qualified foreign institutional investor or a Renminbi qualified foreign institutional investor subscribes for the shares in the name of two or more products under its management, it shall be treated as one target subscriber. Where the target subscriber is a trust company, it must subscribe with its own capital.

The final target subscribers will be determined by the board of directors authorized by the general meeting and the sponsor and lead underwriter for the private placement of A-shares through consultation in accordance with the relevant provisions and based on the bookbuilding results after the approval of the CSRC on the private placement of A-shares.

5. The pricing benchmark date of the private placement of A-shares shall be the first day of the offering period of the A Shares under the private placement. The issue price shall not be lower than 80% of the average trading price of the Company's shares in the 20 trading

days prior to the pricing benchmark date (i.e., "the floor offering price of the private placement of A-shares").

The average trading price of A Shares of the Company for the 20 consecutive trading days preceding the pricing benchmark date = total trading amount of A Shares of the Company for the 20 consecutive trading days preceding the pricing benchmark date ÷ total trading volume of A Shares of the Company for the 20 consecutive trading days preceding the pricing benchmark date. The floor offering price of the private placement in A-shares shall be adjusted accordingly in cases of ex-rights and ex-dividends matters such as cash dividend distribution, bonus issuance and conversion of capital reserve into share capital during the period from the pricing benchmark date of the private placement in A-shares to the date of the issuance.

On the basis of the above-mentioned floor offering price, the final offering price will be determined by the Board of Directors of the Company and the authorized persons of the Board of Directors authorized by the general meeting, and the sponsor and the lead underwriter by means of market inquiry based on the subscription quotation of the target subscribers in compliance with relevant regulations, after the Company obtains the approval of the CSRC on the private placement of A-shares.

6. The total amount raised through the private placement of A-shares shall not exceed RMB 6,527.94 million (inclusive RMB 6,527.94 million), and the proceeds shall be used for the investments in the following projects after deducting the relevant issuance expenses:

Unit: RMB 10,000

SN	Project name	Investment amount	Amount of proceeds to be used
1	WuXi SynTheAll (“STA”) New Drug Pharmaceutical Development Service and Preparation Production Project (Phase I)	80,000	73,628
2	STA Global R&D center and supporting project	56,000	49,176
3	Changzhou STA new drug production and R&D center project (note)	280,000	66,064

SN	Project name	Investment amount	Amount of proceeds to be used
4	Changzhou STA new drug production and R&D integrated project	196,138	178,926
5	STA small molecule new drug production facility upgrade project	30,000	30,000
6	WXAT Shanghai R&D platform technology upgrade project	60,000	60,000
7	Supplement to working capital	195,000	195,000
Total		**897,138**	**652,794**

Note: Construction of part of the project has completed. The proceeds will be used to fund the remaining construction works.

If the actual amount of net proceeds from the private placement of A shares is less than the proposed amount of proceeds to be applied in the above projects, the Company will adjust and determine the final specific investment projects, order of priority and specific investment amounts of each project based on the actual amount of net proceeds and the priority of each project, and any shortfall in the investment amounts will be made up by utilizing the internal capital of the Company or through other financing methods.

Prior to receipt of the proceeds to be raised from the private placement of A shares, the Company may contribute self-raised funds in accordance with the actual needs and progress of the projects. Upon receipt of the proceeds to be raised, the Company will replace the funds in accordance with the requirements under relevant laws and regulations.

7. The target subscribers shall not transfer the shares they subscribe under the private placement of A shares within six (6) months from the ending date of the private placement. The target subscribers who receive A shares under the private placement of A shares and reduce their shareholding upon expiration of the lock-up period are required to comply with the relevant requirements of the Company Law, the Securities Law, the Listing Rules and other relevant laws and regulations, rules, normative documents and the Articles of Association.

During the lock-up period, the shares obtained by the target subscribers for the A shares under private placement due to the issuance of additional shares as dividends and the transfer of capital reserve to share capital shall also be subject to the above lock-up arrangement.

8. The actual controller of the Company will not be changed, and the shares of the Company will not be disqualified of the listing status upon the completion of the private placement of A-shares.

9. The accumulated undistributed profits of the Company prior to the private placement of A-shares are subject to the entitlement of both the new Shareholders and the existing Shareholders upon completion to take care of both parties' interest.

10. The term of validity of the resolution on the private placement of A shares shall be 12 months from the date when the general meeting approves the issuance plan for private placement of A shares.

The maximum number of A Shares to be issued under the Private Placement of A-shares will not be more than 20% of the total number of A Shares in issue on the date of the annual general meeting of 2018. If before the expiration of the general mandate for the board of directors to issue additional A-shares and/or H-shares in 2019 granted by the 2018 annual general meeting, the Company has not obtained the issuance approval, license or registration from the regulatory authorities for the private placement of A shares, the private placement of A-shares can continue to be implemented in accordance with the general mandate for the next year approved by the general meeting, and the Company does not need to hold a separate general meeting or class meeting to reconsider the relevant matters of the private placement of A shares, provided that the maximum number of A Shares to be issued under the Private Placement of A-shares shall not be more than the limit allowed by the general mandate approved by the next annual general meeting.

11. The Company has specified the profit distribution policies in its Articles of Association in accordance with the Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies (Zheng Jian Fa (2012) No.37), the Listed Company Regulation Guideline No.3 - Cash Dividend of Listed Companies (CSRC

Announcement (2013) No.43) as well as other relevant laws, regulations and normative documents. For the Company's profit distribution policy, the amount and proportion of cash dividends in the last three years, the arrangement for the use of undistributed profits, the plan for shareholder dividend return in the next three years, please refer to "Section IV Dividend Distribution of the Issuer" of this plan.

12. The Company has made an analysis on whether the Private Placement of A-shares would dilute the immediate return according to the Instructions on Issues Related to Immediate Return Dilution Arising from IPO, Refinancing and Major Asset Restructuring promulgated by the CSRC. For details, please refer to "Section V Impact of the immediate return dilution resulting from the Private Placement of A-shares on the key financial indexes of the Company and the measures taken by the Company".

The investors are reminded to be alert of the risk that the Private Placement of A-shares may dilute the immediate return. Although the Company has designed the mitigation and remediation measures to address the immediate return dilution risks and the actual controller, directors and senior officers of the Company have made commitments for the practical implementation of the mitigation and remediation measures, please be noted that the mitigation and remediation measures to address the immediate return dilution risks do not guarantee the future profits of the Company, and investors shall not make investment decisions based on them. The Company shall not be liable for any loss caused by the investor's investment decision.

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Definitions

In this plan, unless the context otherwise requires, the following expressions shall have the following meanings:

The Company, Company, Listed Company, Issuer, WXAT	means	WUXI APPTEC CO., LTD., with the A-share stock code of 603259, H-share stock code of 02359
The Private Placement of A-shares	means	The private placement of no more than 75,000,000 (inclusive of75,000,000) A-shares of the Company to specific target subscribers
The Plan	means	The Plan for Private Placement of A-shares of WUXI APPTEC CO., LTD. in 2020
Price Benchmarking Date	means	The first day of the offering period for the Private Placement of A-shares
CSRC	means	China Securities Regulatory Commission
FDA	means	State Food and Drug Administration of China
SSE	means	Shanghai Stock Exchange
Hong Kong Stock Exchange	means	The Stock Exchange of Hong Kong Limited
WuXi STA	means	WuXi STA Pharmaceutical Co., Ltd.
STA	means	Shanghai SynTheAll Pharmaceutical Co., Ltd.
Changzhou SynTheAll	means	Changzhou SynTheAll Pharmaceutical Co., Ltd.
STARD	means	Shanghai STA Pharmaceutical R&D Co., Ltd.
WXAT Shanghai	means	WuXi AppTec (Shanghai) Co., Ltd.
Company Law	means	The Company Law of the People's Republic of China and its amendments from time to time
Securities Law	means	The Securities Law of the People's Republic of China and its amendments from time to time
Administrative Measures	means	Administrative Measures on the Issuance of Securities
Implementation Rules	means	Implementation Rules for Private Placement of Shares by Listed Companies
Drug Control Law	means	Drug Control Law of the People’s Republic of China and its amendments from time to time
Listing Rules	means	Listing Rules of Shanghai Stock Exchange and its amendments from time to time
Articles of Association	means	The Articles of Association WUXI APPTEC CO., LTD. and its revisions and amendments from time to time
Management of the Use of Proceeds	means	The Management of the Use of Proceeds of WiXi AppTec Co., Ltd.

A Share(s)	means	The Share(s) whose face value is indicated in Renminbi, which is/are subscribed for and traded in Renminbi, and which is/are approved to be listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange
H Share(s)	means	The Share(s) approved to be issued outside China, denominated in Renminbi, subscribed for in foreign currencies and traded on the Hong Kong Stock Exchange
Domestic	means	Within the territory of the PRC
Hong Kong	means	the Hong Kong Special Administrative Region of the PRC
PRC	means	the People's Republic of China which, for the purpose of this Plan, does not include the Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Province
The PRC laws	means	The publicly promulgated laws, administrative regulations, rules and other normative documents in force within the territory of the PRC
Sponsor (Lead Underwriter)	means	Huatai United Securities Co., Ltd.
Joint Lead Underwriter	means	Morgan Stanley Huaxin Securities Co., Ltd.
Yuan, 10 Thousand Yuan, 100 Million Yuan	means	RMB Yuan, 10 Thousand Yuan, 100 Million Yuan, the lawful currency of the PRC
CRO	means	Contract Research Organization, an academic or commercial scientific institution that provides, by contract, specialized services to pharmaceutical companies and research and development institutions in the course of drug development
CMO	means	Contract Manufacture Organization, which mainly accepts the commission of pharmaceutical companies to provide such services as process development, formula development, clinical trial, chemical or biosynthetic bulk drug production, intermediate manufacturing, preparation production (such as powder, injection) and packaging needed for product production
CDMO	means	Contract Development And Manufacturing Organization, which provides customized R&D services for the relevant products in additional to CMO services
CMC	means	Chemistry, Manufacturing and Controls, mainly refers to the collection and control of pharmaceutical research information in respect of production technology, impurities research, quality research and stability research during the process of new drugs R&D
cGMP	means	Current Good Manufacture Practices, also known as Dynamic Good Manufacture Practices or International Good Manufacture Practices, which require the production and delivery of products must be subject to inspection. cGMP is the leading international standard of Good Manufacture and is currently adopted in the United States, Europe and Japan

ICH	means	The International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use
MAH	means	Marketing Authorization Holder, that is, the drug research and development institutions, researchers, drug manufacturers and other entities with drug technology, which applies for and obtains a drug marketing license and bears the primary responsibility for the quality of a drug throughout its life cycle. The marketing authorization holder and the manufacturing license holder may be the same entity or two independent entities

Note: Any discrepancy between the total number and the sum of values in any table of this plan is caused by rounding.

Section I Overview of the Plan for the Private Placement of A-shares

I. Profile of the issuer

Company name (Chinese):	无锡药明康德新药开发股份有限公司
Company name (English):	WuXi AppTec Co., Ltd.
Stock abbreviation	WUXI APPTEC
A-share listing date	May 8, 2018
A-share stock code	603259
H-share listing date	December 13, 2018
H-share stock code	02359
Listing place	SSE and Hong Kong Stock Exchange
Legal representative	Ge Li
Secretary of the Board	Chi Yao
Registered capital	RMB 1,638.043314 million (note)
Registered office	Mashan No. 5 Bridge Binhu District, WuXi Jiangsu Province PRC
Business scope	R&D and application of new drugs; research and development of pharmaceutical intermediates and fine chemical products (excluding hazardous chemicals); technology development, technology transfer, technical services and technical consultation in medical science and technology, biotechnology, combinatorial chemistry, organic chemistry, medical science and technology, detection technology and computer science and technology; wholesale of category I medical devices and medicines, sales of mechanical devices and spare parts; import and export of all kinds of commodities and technologies (proprietary and agency) (except for those commodities and technologies which can be operated by the designated enterprises only or are prohibited to be imported or exported); enterprise management consulting, medical information consulting, health consulting (excluding for diagnosis and treatment activities, psychological consulting); rental of premises; conference and exhibition services; outward investment with its own capital (approvals from competent authorities shall be

	obtained for the operation of the activities requiring approval in accordance with the laws).

Note: The Company repurchased 338,349 Restricted A Shares for cancellation in September 2019. The Company registered the grant of 478,822 Restricted A Shares in November 2019. The Company registered the grant of 12,942,744 Restricted Shares in December 2019. As at the date of this proposal, the Company has a total of 1,651,126,531 Shares. The aforementioned changes in share capital are subject to registration with the Administration for Industry and Commerce.

II. Background and purpose of the Private Placement of A-shares

(I) Background of the Private Placement of A-shares

1. Pharmaceutical R&D service industries within and outside China continue to experience rapid growth with promising outlook

Thanks to the active investment in pharmaceutical sector, increasing applications for new drugs, advancement of scientific technology, reform in pharmaceutical policy and regulations, emerging of biotech companies and other factors, pharmaceutical R&D service industries within and outside China continue to experience rapid growth with promising outlook. According to Frost & Sullivan, the global pharmaceutical R&D services market has grown from US$77.7 billion in 2014 to US$115.3 billion in 2018, and is expected to grow at an annual compound growth rate of about 10.9% from 2018 to 2023. The global pharmaceutical R&D services market will reach $193.7 billion in 2023. The global pharmaceutical R&D services market in China has grown from $8.2 billion in 2014 to US$16.7 billion in 2018, and is expected to grow at an compound annual growth rate of about 20.9% from 2018 to 2023. The pharmaceutical R&D services market in China will reach US$43.2 billion in 2023.

According to Frost & Sullivan, the global CDMO/CMO market size increased from US$42.9 billion in 2014 to US$66.1 billion in 2018, representing a CAGR of 11.4%. The CDMO/CMO market in China increased from US$3.1 billion in 2014 to US$5.6 billion in

2018, representing a CAGR of 15.9%. It is expected that the market will increase at a CAGR of 21.1% and reach US$14.6 billion by 2023.

2. Demand of R&D of drug will significantly increase due to the change in pharmaceutical regulation policy and the introduction of favorable policies

In October 2017, the general office of Chinese Communist Party, the general office of the State Council published the Opinion on the Promotion of Drug and Medical Device Development through Reformation of Review and Approval System. The approval of qualification of clinical trial institutions and approval of clinical trials were reformed to encourage the restructuring of the pharmaceutical industry and innovation of technology. In August 2019, the 12th meeting of the 13th session of the Standing Committee of the National People's Congress approved the "Law of Drug Management" and introduced the MAH system to separate the approval of sales and production so as to reduce redundant production capacity for higher production efficiency. In particular, small pharmaceutical companies without production are encouraged to participate in R&D. The outsourcing of production is inevitable. In addition, after China formally joined the ICH, the approval of generics and reform of medical insurance and introduction of favorable policies has promoted the continuous growth of the pharmaceutical industry in China. The industry becomes more fragmented and professional and the demand of drug R&D increase significantly.

3. Due to the advantages of scale and synergy, the pharmaceutical R&D service industry shows the characteristics of the stronger getting stronger

Driven by the favorable industry development, market demand increases significantly and enterprises offering one-stop services covering from drug discovery to commercialized production are able to leverage on their outstanding service quality and rich experience and secure more project orders. A majority of quality projects are concentrated in the hands of leading enterprises. It is easier for companies that have the advantage of scale to expand their businesses. In addition, the one-stop service enterprises have a wide range of business, their cost can be better shared, and the business departments cooperate and drainage with each other, creating significant synergy. Therefore, with the continuous and rapid growth of the global and Chinese pharmaceutical R&D service industry, the whole industrial chain and one-stop service enterprises will further realize the business development and consolidation, realize the continuous optimization of the business ecosystem and show the characteristics of the stronger getting stronger by virtue of the advantages of scale and synergies. The leading players will gain more market shares in a robust environment and with favorable policies, by leveraging on their advantages in terms of technology, quality and production capacity.

4. Open-access integrated platform of WuXi AppTec is one of the few integrated end-to-end drug development platform

The leading open-access integrated drug development platform provides all-round drug development and production services to pharmaceutical companies in the world. The Company’s platform provides services covering research, development and production of chemical drugs and cell and gene therapies and medical device testing and clinical research. As one of the few integrated end-to-end new drug R&D service platforms in the world, the Company is able to satisfy the increasing and diversified demands from global customers. Our customers include multinational pharmaceutical companies, domestic pharmaceutical companies, biotechnology companies, start-ups, virtual companies, as well as scholars and non-profit research institutions.

Leveraging on the advantages of its integrated end-to-end service platform, the Company strengthen its cross selling efforts to acquire customers of its upstream and downstream businesses. The Company has an extensive value chain which can enable it customer by provide drug development and production services. We are highly reliable due to the quality and efficiency of our services. We continue to expand business during project development and drug development.

In particular, the Company secures more and more post-clinical and commercialization projects through close collaboration with customers in pre-clinical projects Supported by our integrated end-to-end R&D service platform, our CDMO/CMO business has been growing rapidly in recent years. The revenue grew at a CAGR of 33.40% from 2017 to 2019 .

As at the end of 2019, the Company had about 1,000 pre-clinical, clinical and commercialization projects, including 40 Phase III clinical trials and 21 projects in commercial manufacturing, laying a strong foundation for the future development of our CDMO/CMO business.

Given the strong market demand, favorable policies and large number of customers and projects, the Company has imminent need for expansion and upgrade of R&D and production capacity. The Company will continue to improve service quality and enhance its capability in R&D, production, team development, business investment to strengthen its core competitiveness and advantages.

(II) Purpose of the Private Placement of A-shares

1. To achieve capacity expansion, strengthen the whole industry chain service capabilities, especially CDMO/CMO service capabilities

The Company provides services for customers in different stages by following the scientific law of the development of new drug R&D projects from the early stage to the later stage, and executing the strategy of "following the project" to "following the drug molecules". On one hand, by enabling customers in the early stage of new drug development, the Company has won the trust of many customers, and enjoys an excellent reputation in the industry. In addition, the Company can obtain more business opportunities in the later stage of product development and commercialization, which contributes to the sustained and rapid growth of CDMO/CMO service revenue. On the other hand, the Company has undertaken many commercial orders of the marketed drugs, and needs to expand its production capacity to meet the production capacity demand of the corresponding commercial production projects. The Company will achieve capacity expansion, strengthen the whole industry chain service capabilities, especially CDMO/CMO service capabilities through the construction of the projects invested with the proceeds.

2. To maintain the leading edge of technology, continue to increase research and development investment and explore cutting-edge technology

The company is committed to enabling pharmaceutical research, development innovation using the latest science and technology, in order to help customers turn new drugs from an idea into a reality. The Company is in a leading position in the industry in terms of service capability and scale, which helps the Company to better predict the future scientific and technological development and emerging R&D trends in the industry and seize new development opportunities. On this basis, the Company explores the cutting-edge technology in drug research and development, improvement and production service, and strives to apply it to the new drug research and development process as soon as possible, so as to help customers improve the research and development efficiency and minimize the threshold of new drug research and development. With an in-depth understanding of industry trends and emerging technologies, we empower our customers by helping them understand the latest industry trends, interpret and research the latest scientific findings and translate them into viable business results. Through the construction of the projects invested with the proceeds, we will improve the drug process research and development, improvement and production services, continuously increase the research and development investment to explore the cutting-edge technology, and maintain the advancement of technology.

3. Enhancement of R&D efficiency and further improvement of customer service to strengthen the core competitiveness of the Company

Advanced R&D service and innovative technology is the core value and competitiveness of pharmaceutical services provider. The state-of-the-art equipment can represent the capability of our R&D services. The proceeds from the offering can allow the Company to upgrade its R&D equipment for stronger capability and efficiency and the introduction of various service platforms. The expansion of business scale and improvement in customer service can further consolidate the core competitiveness of the Company and the leading position of its new technology platforms.

4. To enhance our financial strength and provide sufficient guarantee for deepening the "integrated and end-to-end” strategic deployment

Through the "integrated and end-to-end" enabling platform, the Company helps to lower the threshold of new drug development, improve the efficiency of research and development, facilitate the success of partners, and attract more participants to join the new drug development industry. In this process, the Company will continuously drive the development of new knowledge and new technology, improve the research and development efficiency, reduce the research and development cost, enhance the capability of platform innovation, in order to create a virtuous ecosystem. When the proceeds are available, the Company will further enhance the capital strength, provide full guarantee for deepening the "integrated and end-to-end” strategic deployment, develop new drugs and healthcare products in a more efficient manner, promote launch of more good and new drugs, so as to benefit the patients and achieve the corporate vision of “becoming a platform with the highest, widest and deepest capability and technology in global pharmaceutical and health industry, facilitating drug research and development, and eliminating incurable diseases in the world”.

III. Relations between the target subscribers of the Private Placement of A-shares and the Company

Target subscribers of the Private Placement of A-shares are up to 35 specific investors. The specific investors must be the CSRC qualified securities investment fund management companies, securities companies, trust companies, finance companies or insurance institutional investors, qualified foreign institutional investors and other legal person, natural person or institutional investors who meet the conditions specified in the relevant laws and regulations. Where a securities investment fund management company, a securities company, a qualified foreign institutional investor or a Renminbi qualified foreign institutional investor subscribes for the shares in the name of two or more products under its management, it shall be treated as one target subscriber. Where the target subscriber is a trust company, it must subscribe with its own capital.

The final target subscribers will be determined by the board of directors authorized by the general meeting and the sponsor and lead underwriter for the private placement of A-shares through consultation in accordance with the relevant provisions and based on the bookbuilding results after the approval of the CSRC on the private placement of A-shares.

As of the date of this plan, there is no finalized target subscriber for the Private Placement of A-shares, and it is unable to determine the relations between the target subscriber and the Company. The relations between the target subscriber and the Company will be disclosed in the Offering Report and upon the completion of offering.

IV. Overview of the Plan for the Private Placement of A-shares

(I) Type and nominal value of shares to be issued

The shares to be issued in the Private Placement of A-shares are domestic listed RMB ordinary shares (A shares) with a nominal value of RMB1.00 each.

(II) Issuance method and issuance time

All the shares under the Private Placement of A-shares will be issued to the target subscribers through private placement, which will be implemented by the Company in good time within the validity period of the approval on the Private Placement of A-shares by the CSRC.

(III) Target subscribers, subscription method, and arrangements for placement to existing shareholders

Target subscribers of the Private Placement of A-shares are up to 35 specific investors. The specific investors must be the CSRC qualified securities investment fund management companies, securities companies, trust companies, finance companies or insurance institutional investors, qualified foreign institutional investors and other legal person, natural person or institutional investors who meet the conditions specified in the relevant laws and regulations. Where a securities investment fund management company, a securities company, a qualified foreign institutional investor or a Renminbi qualified foreign institutional investor subscribes for the shares in the name of two or more products under its management, it shall be treated as one target subscriber. Where the target subscriber is a trust company, it must subscribe with its own capital.

The final target subscribers will be determined by the board of directors authorized by the general meeting and the sponsor and lead underwriter for the private placement of A-shares through consultation in accordance with the relevant provisions and based on the bookbuilding results after the approval of the CSRC on the private placement of A-shares.

All target subscribers shall subscribe for the shares to be issued during the Private Placement of A-shares in RMB cash.

The shares under the Private Placement of A-shares will not be placed to the existing shareholders.

(IV) Issuance price and pricing principle

The pricing benchmark date of the private placement of A-shares shall be the first day of the offering period of the A Shares under the private placement. The issue price shall not be lower than 80% of the average trading price of the Company's A shares in the 20 trading days prior to the pricing benchmark date (i.e., "the floor offering price of the private placement of A-shares").

The average trading price of A Shares of the Company for the 20 consecutive trading days preceding the pricing benchmark date = total trading amount of A Shares of the Company for the 20 consecutive trading days preceding the pricing benchmark date ÷ total trading volume of A Shares of the Company for the 20 consecutive trading days preceding the pricing benchmark date. The floor offering price of the private placement in A-shares shall be adjusted accordingly in cases of ex-rights and ex-dividends matters such as cash dividend distribution, bonus issuance and conversion of capital reserve into share capital during the period from the pricing benchmark date of the private placement in A-shares to the date of the issuance.

On the basis of the above-mentioned floor offering price, the final offering price will be determined by the Board of Directors of the Company and the authorized persons of the Board of Directors authorized by the general meeting, and the sponsor and the lead underwriter by means of market inquiry based on the subscription quotation of the target subscribers in compliance with relevant regulations, after the Company obtains the approval of the CSRC on the private placement of A-shares.

(V) Offering size

The number of shares issued in the private placement of A-shares shall not exceed 75,000,000 shares (inclusive of 75,000,000 shares), and the total amount raised shall not exceed RMB 6,527.94 million (inclusive of RMB 6,527.94 million). The actual number of shares issued in the private placement of A-shares shall be rounded to the ones place (with the calculation rounded down), and subject to the approval document of the CSRC.

The final offering size will be determined by the Board of Directors of the Company and the authorized persons of the Board of Directors authorized by the general meeting, and the sponsor and the lead underwriter through consultation based on the offering size limit approved by the CSRC and the subscription quotation of the target subscribers in compliance with relevant regulations, after the Company obtains the approval of the CSRC on the private placement of A-shares.

The number of shares to be issued in the Private Placement of A-shares shall be adjusted on the basis of the following formula in cases of ex-rights matters such as bonus issuance and conversion of capital reserve into share capital during the period from the date of the resolution(s) approved by the Board in connection with the private placement in A-shares to the date of the issuance.

$QA1=QA0*(1+EA)$

Where,

QA1 is the maximum number of A Shares to be issued after adjustment, QA0 is the maximum number of A Shares to be issued before adjustment, and EA is the number of bonus Shares or rights issue Shares.

If the regulatory authorities, such as the CSRC, adjust the above-mentioned offering size, the size approved by the relevant authority shall prevail.

(VI) Lock-up period

The target subscribers shall not transfer the A shares they subscribe under the private placement of A shares within six (6) months from the ending date of the private placement. The target subscribers who receive A shares under the private placement of A shares and reduce their shareholding upon expiration of the lock-up period are required to comply with the relevant requirements of the Company Law, the Securities Law, the Listing Rules and other relevant laws and regulations, rules, normative documents and the Articles of Association.

During the lock-up period, the shares obtained by the target subscribers for the A shares under private placement due to the issuance of additional shares as dividends and the transfer of capital reserve to share capital shall also be subject to the above lock-up arrangement.

(VII) Listing place

The shares to be issued under the Private Placement of A Shares will be listed and traded on the Shanghai Stock Exchange upon expiration of the lock-up period.

(VIII) Arrangement of accumulated undistributed profits before the Private Placement of A-shares

The accumulated undistributed profits of the Company prior to the private placement of A-shares are subject to the entitlement of both the new Shareholders and existing Shareholders upon completion to take care of both parties' interest.

(IX) The term of validity of the resolution on the private placement of A-shares

The term of validity of the resolution on the private placement of A shares shall be 12 months from the date when the general meeting approves the issuance plan for private placement of A shares.

The maximum number of A Shares to be issued under the Private Placement of A-shares will not be more than 20% of the total number of A Shares in issue on the date of the annual general meeting of 2018. If before the expiration of the general mandate for the board of directors to issue additional A-shares and/or H-shares in 2019 granted by the 2018 annual general meeting, the Company has not obtained the issuance approval, license or registration from the regulatory authorities for the private placement of A shares, the private placement of A-shares can continue to be implemented in accordance with the general mandate for the next year approved by the general meeting, and the Company does not need to hold a separate general meeting or class meeting to reconsider the relevant matters of the private placement of A shares, provided that the maximum number of A Shares to be issued under the Private Placement of A-shares shall not be more than the limit allowed by the general mandate approved by the next annual general meeting.

(X) Amount and use of proceeds

The total amount raised through the private placement of A-shares shall not exceed RMB 6,527.94 million (inclusive RMB 6,527.94 million), and the proceeds shall be used for the investments in the following projects after deducting the relevant issuance expenses:

Unit: RMB 10,000

SN	Project name	Investment amount	Amount of proceeds to be used
1	WuXi SynTheAll ("STA") New Drug Pharmaceutical Development Service and Preparation Production Project (Phase I)	80,000	73,628
2	STA Global R&D center and supporting project	56,000	49,176
3	Changzhou STA new drug production and R&D center project (note)	280,000	66,064
4	Changzhou STA new drug production and R&D integrated project	196,138	178,926
5	STA R&D center facility upgrade project	30,000	30,000
6	WXAT Shanghai R&D center facility upgrade project	60,000	60,000
7	Supplement to working capital	195,000	195,000
Total		**897,138**	**652,794**

Note: Construction of part of the project has completed. The proceeds will be used to fund the remaining construction works.

If the actual amount of net proceeds from the private placement of A shares is less than the proposed amount of proceeds to be applied in the above projects, the Company will adjust and determine the final specific investment projects, order of priority and specific investment amounts of each project based on the actual amount of net proceeds and the priority of each project, and any shortfall in the investment amounts will be made up by utilizing the internal capital of the Company or through other financing methods.

Prior to receipt of the proceeds to be raised from the private placement of A shares, the Company may contribute self-raised funds in accordance with the actual needs and progress of the projects. Upon receipt of the proceeds to be raised, the Company will replace the funds in accordance with the requirements under relevant laws and regulations.

V. Whether this offering constitutes a connected transaction

As of the date of this plan, there is no finalized target subscriber for the Private Placement of A-shares. Whether there will be any connected transaction because any connected party subscribes for the shares offered will be disclosed in the Offering Report upon the completion of the Private Placement of A-shares.

VI. Whether this offering will cause any change to the control of the Company

Prior to this offering, the shares held by the issuer's direct shareholders are relatively dispersed, and there is no controlling shareholder. Ge Li, Ning Zhao, Xiaozhong Liu and Zhaohui Zhang jointly control 27.4178% of the voting rights at the general meeting of the issuer. They are the actual controllers of the issuer.

Upon the completion of the Private Placement of A-shares (only considering the change in the number of shares of the Company caused by this offering and the conversion of capital reserves to share capital in 2019), the voting rights of the Company jointly controlled by the actual controller of the Company will be reduced to no less than 26.2265%. They will still be the actual controllers of the Company. The Private Placement of A-shares will not result in a change in the actual controller of the Company or a significant change in the share capital structure of the Company.

Therefore, the Private Placement of A-shares will not lead to a change in issuer's control.

VII. Procedures for the Plan of the Private Placement of A-shares to be submitted for approval

The matters related to the Private Placement of A-shares have been deliberated and approved at the 39th meeting of the first board of directors and the annual meeting of the board of directors for 2019 on March 24, 2020. According to the Company Law, the Securities Law, the Administrative Measures, the Implementation Rules and other relevant laws and regulations and normative documents, the private placement of A-shares shall be submitted to the general meeting of the Company for deliberation before they can be implemented.

The Private Placement of A-shares shall be approved by the CSRC. Upon approval by the CSRC, the Company will apply to the SSE, the Hong Kong Stock Exchange, the Shanghai branch of China Securities Depository and Clearing Corporation Limited, and other relevant authorities for stock issuance, registration and listing.

Section II Feasibility Analysis of the Board of Directors on Use of Proceeds

I. Plan for use of proceeds from this offering

The total proceeds from the Private Placement of A-shares, which is RMB 6,527.94 million (inclusive), shall be used for the investments in the following projects after deducting the relevant issuance expenses:

Unit: RMB 10,000

SN	Project name	Investment amount	Amount of proceeds to be used
1	WuXi SynTheAll ("STA") New Drug Pharmaceutical Development Service and Preparation Production Project (Phase I)	80,000	73,628
2	STA Global R&D center and supporting project	56,000	49,176
3	Changzhou STA new drug production and R&D center project (note)	280,000	66,064
4	Changzhou STA new drug production and R&D integrated project	196,138	178,926
5	STA small molecule new drug production facilities upgrade project	30,000	30,000
6	WXAT Shanghai R&D platform technology upgrade project	60,000	60,000
7	Supplement to working capital	195,000	195,000
Total		**897,138**	**652,794**

Note: Construction of part of the project has completed. The proceeds will be used to fund the remaining construction works.

If the actual amount of net proceeds from the private placement of A shares is less than the proposed amount of proceeds to be applied in the above projects, the Company will adjust and determine the final specific investment projects, order of priority and specific investment amounts of each project based on the actual amount of net proceeds and the priority of each project, and any shortfall in the investment amounts will be made up by utilizing the internal capital of the Company or through other financing methods.

Prior to receipt of the proceeds to be raised from the private placement of A shares, the Company may contribute self-raised funds in accordance with the actual needs and progress of the projects. Upon receipt of the proceeds to be raised, the Company will replace the funds in accordance with the requirements under relevant laws and regulations.

II. Feasibility analysis on the projects invested with the proceeds

(I) Project overview

1. WuXi SynTheAll ("STA") New Drug Pharmaceutical Development Service and Preparation Production Project (Phase I)

(1) Project overview

The project will be implemented by STA, which plans to build a new drug preparation development service and preparation production base in Xinwu District, Wuxi City, including the construction of preparation production workshop and pilot test workshop, and the purchase of production equipment and corresponding analytical and testing experimental instruments. After the completion of the project, the Company will be able to provide pre-prescription preparation research, preparation process development, clinical medication services for customers with an annual production capacity of 500 million tablets, 1 billion capsules and 15 million bottles of injection.

(2) Project investment estimate

The investment estimate of the project is RMB800 million as follows:

Unit: RMB10,000

No.	Project	Estimate of investment	Percentage
1	Construction	14,589.17	18.24%
2	Installation	10,732.99	13.42%
3	Acquisition of equipment	46,323.64	57.90%
4	Other assets	3,191.78	3.99%
5	General preparation	3,705.88	4.63%
6	Reserve	1,456.55	1.82%
	Total	**80,000.00**	**100.00%**

(3) Project benefit analysis

According to calculation, the after-tax IRR of the project is 16.29%, and the after-tax payback period is 7.52 years, including the construction period. The project has good economic benefits.

(4) Progresses of land use right acquisition, filing and environmental impact assessment procedures

The real estate certificate has been obtained for the project, the project establishment and filing procedures have been completed, and the EIA approval procedures are in progress.

2. STA Global R&D center and supporting project

(1) Project overview

The project will be implemented by Shanghai STA, which plans to build a global research and development center in the existing factory of STA in the southern part of Jinshan Section of Shanghai Chemical Industrial Zone. Upon completion, the Company will have more than 700 researchers and assistants to provide various R&D services for customers all over the world, including production process and improvement, highly active drug production technology, fluid chemicals, bio-enzyme, verification of production parameters, production safety assessment. By expansion of R&D team, the Company expects that its leading position in CDMO can be further consolidated.

(2) Project investment estimate

The investment estimate of the project is RMB560 million as follows:

Unit: RMB10,000

No.	Project	Estimate of investment	Percentage
1	Construction	14,141.43	25.25%
2	Installation	4,432.75	7.92%
3	Acquisition of equipment	30,194.16	53.92%
4	Other assets	2,807.51	5.01%
5	General preparation	2,522.54	4.50%
6	Reserve	1,901.61	3.40%
	Total	**56,000.00**	**100.00%**

(3) Project benefit analysis

According to calculation, the after-tax IRR of the project is 20.29%, and the after-tax payback period is 6.00 years, including construction period. The project has good economic benefits.

(4) Progresses of land use right acquisition, filing and environmental impact assessment procedures

The real estate certificate has been obtained for the project. The procedures of project establishment, filing, and EIA examination and approval have been completed.

3. Changzhou STA new drug production and R&D center project

(1) Project overview

The project will be implemented by Changzhou STA, which plans to build R&D centre, administration building, production facilities and analysis centre, these are R&D, production and ancillary facilities. The R&D centre, a number of production facilities and ancillary facilities have been completed. The proceeds to be raised will be used to complete the remaining construction. Upon completion, flexible and scalable drug production lines will be available to take up many production projects. It can also increase the commercial dry spray production capacity to meet part of the clinical trial projects. The Company expects that the project will complete in 2021.

(2) Project investment estimate

The investment estimate of the project is RMB2,800 million as follows:

Unit: RMB10,000

No.	Project	Estimate of investment	Percentage
1	Construction	63,991.59	22.85%
2	Installation	88,343.73	31.55%
3	Acquisition of equipment	93,717.84	33.47%
4	Other assets	13,619.10	4.86%
5	General preparation	12,788.61	4.57%
6	Reserve	7,539.14	2.69%
	Total	**280,000.00**	**100.00%**

(3) Project benefit analysis

According to calculation, the after-tax IRR of the project is 19.03%, and the after-tax payback period is 9.86 years, including construction period. The project has good economic benefits.

(4) Progresses of land use right acquisition, filing and environmental impact assessment procedures

The real estate certificate has been obtained for the project. The procedures of project establishment, filing, and EIA examination and approval have been completed.

4. Changzhou STA new drug production and R&D integrated project

(1) Project overview

The project will be implemented by Changzhou STA, which plans to build a new drug production and research and development integration base in the chemical industrial park of Changzhou Binjiang Economic Development Zone, and the project construction includes the construction of R&D centre and various API production workshops. We expect workshops to be build will be put into operation in 2020 to meet the increasing need for API development and production services.

(2) Project investment estimate

The investment estimate of the project is RMB 1,961.38 million as follows:

Unit: RMB10,000

No.	Project	Estimate of investment	Percentage
1	Construction	30,886.98	15.75%
2	Installation	50,894.74	25.95%
3	Acquisition of equipment	90,725.00	46.26%
4	Other assets	8,951.48	4.56%
5	General preparation	8,922.91	4.55%
6	Reserve	5,756.89	2.94%
	Total	**196,138.00**	**100.00%**

(3) Project benefit analysis

According to calculation, the after-tax IRR of the project is 19.56%, and the after-tax payback period is 7.19 years, including construction period. The project has good economic benefits.

(4) Progresses of land use right acquisition, filing and environmental impact assessment procedures

The real estate certificate has been obtained for the project. The procedures of project establishment, filing, and EIA examination and approval have been completed.

5. STA small molecule new drug production facilities upgrade project

(1) Project overview

The project will be implemented by Shanghai STA, which plans to purchase and upgrade development equipment for the analysis method, pre-prescription research, enzyme evolution and fermentation platforms.

(2) Project investment estimate

The project investment will be RMB 300 million, as detailed below:

Unit: RMB10,000

No.	Platform	Estimate of investment	Percentage
1	Analysis method	9,913.00	33.04%
2	Pre-prescription research	6,871.00	22.90%
3	Enzyme evolution and fermentation technology	3,285.00	10.95%
4	Crystal and salt form research	2,660.00	8.87%
5	Crystal technology research	1,884.00	6.28%
6	Fluid chemical technology	1,828.00	6.09%
7	Chemical technology	1,030.00	3.43%
8	Prescription research	900.00	3.00%
9	Production parameter verification	837.00	2.79%
10	Production safety assessment	640.00	2.13%
11	Metal catalyst high volume screening technology	152.00	0.51%
	Total	**30,000.00**	**100.00%**

(3) Project benefit analysis

Although this project does not directly generate economic benefits, the establishment of production technology platforms will help improve its service ability, improve its technological innovation system in process research and development, improvement and production services, enhance its core technology reserves, to provide customers high quality technology development and preparation development service and win orders from customers.

(4) Progresses of land use right acquisition, filing and environmental impact assessment procedures

This project is an equipment purchase and upgrade project, for which the procedures of project registration and approval have been completed, and there is no need to go through the procedures of environmental impact assessment.

6. WXAT Shanghai R&D technology platform upgrade project

(1) Project overview

The project will be implemented by WXAT Shanghai, which plans to purchase and upgrade the R&D, analysis and chemical compound equipment of small molecule drug.

(2) Project investment estimate

The project investment will be RMB600 million, as detailed below:

Unit: RMB10,000

No.	Platform	Estimate of investment	Percentage
1	Small molecule drug R&D, analysis and chemical compound platform	26,656.00	44.43%
2	Integrated drug R&D platform	20,225.00	33.71%
3	Internal and external biology, structural biology, tumor and immunology research and service platform	13,119.00	21.87%
	Total	**60,000.00**	**100.00%**

(3) Project benefit analysis

Although this project does not directly generate economic benefits, it will upgrade the R&D equipment of WXAT Shanghai R&D center, which will improve the Company's ability of drug discovery, research and development services, improve its technology innovation system, enhance its core technology, speed up the construction of the research and development team, further enhance the Company's comprehensive strength, lay a solid foundation for the technological innovation of the Company, strengthen the competitiveness of its main business, strengthen the Company's competitive position in drug discovery and research and development services, thus having a significant impact on the Company's overall economic performance.

(4) Progresses of land use right acquisition, filing and environmental impact assessment procedures

This project is an equipment purchase and upgrade project, for which the procedures of project registration and approval have been completed, and there is no need to go through the procedures of environmental impact assessment.

7. Supplement to working capital

The Company intends to use the RMB1,950 million of the proceeds to supplement the working capital, so as to meet the its daily production and operation capital needs, further enhance its financial strength, to capitalize market opportunities to establish a enabling eco-system and to strengthen its market position.

(II) Necessity and feasibility of the project implementation

1. CDMO/CMO productivity construction project

STA New Drug Pharmaceutical Development Service and Preparation Production Project (Phase I), STA global drug R&D centre and supporting project, Changzhou STA new drug production and R&D center project and Changzhou STA new drug production and R&D integrated project are CMO/CDMO productivity construction projects. The necessity and feasibility analysis for the above projects is as follows:

(1) Necessity of project implementation

1) The CMO/CDMO market is huge and the growth is fast.

According to Frost & Sullivan, the global CDMO/CMO market size increased from US$42.9 billion in 2014 to US$66.1 billion in 2018, representing a CAGR of 11.4%. The CDMO/CMO market in China increased from 3.1 billion in 2014 to USD5.6 billion in 2018, representing a CAGR of 15.9%. It is expected that the market will increase at a CAGR of 21.1% and reach US$14.6 billion by 2023. The Company has to increase its production capacity and improve its services to meet the rapid growth of the industry.

2) The Company need to enhance its R&D capability and its customized R&D services to the evolving environment of drug R&D

The traditional business model of cooperation between CMO company and pharmaceutical company is “technology transfer + contract production’. The business model is changing to the “joint R&D + contract production” of CDMO model. Different from ordinary CMO, CDMO focuses on their R&D capability. They improve their traditional technology according to cGMP to complete contract R&D projects. CDMO companies can provide to pharmaceutical companies the processing technology and improvement needed for production of new drugs, development of prescription and trial production. Furthermore, they can also provide contract production service at various scales from kilogram to 1,000 kilogram. Therefore, CDMO is a high risk, investment incentive, long term and sophisticated system with more professional and complex process. The Company has to continuously improve its technology to establish a core technology barrier in response to the evolving pharmaceutical industry

3) The Company has large CDMO/CMO project reserve and need to expand production capacity to meet the increasing market demand

With the investment of domestic and foreign pharmaceutical enterprises in new drug research and development and the increasing support from the Chinese government for new drug research and development, the market scale of new drug research and development at home and abroad continues to increase, and the Company's CDMO/CMO business demand keeps rising. At the same time, the Company firmly promotes the strategy of "expanding services following the development of drug molecules", and continuously wins new post-clinical and commercialization projects by establishing close cooperation relationship with customers in the pre-clinical stage. As at the end of 2019, the Company had about 1,000 pre-clinical, clinical and commercialization projects, including 40 Phase III clinical trials and 21 projects in commercial manufacturing. The existing production capacity of CDMO/CMO cannot meet the increasing market demand. The proceeds for the offering will be used to increase the production capacity of CDMO/CMO and the production will be expanded smoothly to meet the increasing market demand.

4) As a leading enterprise in CDMO/CMO industry, the Company needs to continuously improve its ability to maintain its core competitiveness.

In recent years, the development environment for innovative drugs in China has been improving, the reform of the drug review and approval system has been deepened, and the preferential review and approval policy has been continuously improved and implemented. As a result, the number of innovative drugs marketed in China has continued to rise, and it has also attracted major pharmaceutical companies from all over the world to continuously increase their R&D and innovation investment in China. Drug companies are prudent in their choice of CDMO/CMO companies, favoring companies with strong qualifications and rarely changing partners during the development of new drugs. The Company has the world's largest small-molecule process research and development team and outstanding chemical innovative drug research, development and production capacity and technology platform. It is the first CMC R&D and production platform for small-molecule innovative drugs that have passed the US FDA on-site inspection.. It has been repeatedly certified as "zero defect" by FDA and has passed the inspection of FDA. It also has been approved and certified by drug regulatory authorities in the United States, China, the European Union, Japan, Canada, Switzerland, Australia and New Zealand. Through the construction of the projects invested with proceeds, the Company can improve the production capacity of CDMO/CMO, further give full play to its CDMO/CMO business advantages, maintain and improve its core competitiveness, and better meet the needs of customers..

(2) Feasibility of project implementation

1) Favorable policy environment support the construction of the projects invested with proceeds

In August 2019, the 12th session of the Standing Committee of the 13th National People's Congress revised and adopted the Drug Administration Law. The full implementation of the pharmaceutical listing license holder (MAH) system and the adoption of the separate management mode of listing license and production license helped to reduce the repetitive construction of production capacity and improve the social production efficiency. In particular, the R&D enthusiasm of small R&D entities without production capacity was fully mobilized, and production outsourcing is their inevitable choice. Meanwhile, in recent years, the state has actively promoted the reform of the review and approval system for drugs and medical devices, and issued a series of favorable industrial policies, including the consistency evaluation of generic drugs and the reform of the medical insurance payment system. All these will drive the continuous growth of the domestic medical research and development service industry, and also provide policy support for the construction of the projects invested with the proceeds.

2）Extensive customer resources and platform advantages ensure the capacity digestion of the projects invested with proceeds

Different from the traditional CMO which focuses on the commercial production stage, the Company’s business, with the advantages of a comprehensively integrated new drug research and development and production service platform, covers from the development and preparation of new drug pre-clinical process, to the process optimization and large-scale production in the commercialization stage of marketed drugs, providing efficient, flexible and high-quality one-stop solution for new drug development partners. The Company will start to participate in the process development and production of new drugs from the pre-clinical stage, and continuously optimize the process and expanded the production scale with the continuous progress of the clinical trials of new drugs under research, so as to realize comprehensive services, including innovative drug technology development, API R&D and commercial production, preparation R&D and commercial production, drug stability research and drug registration declaration information drafting service, and finally become a commercial production supplier to customers.

As of December 31, 2019, the Company provided services to more than 3,900 customers (active customers) from over 30 countries through the 29 operating bases and branches in China, the United States, Europe and other parts of the world. The Company's customers include the top 20 pharmaceutical companies in the world, including Pfizer, Johnson & Johnson, Novartis, Roche, Merck and Gilead. In addition, the Company adheres to The Long Tail Strategy, dedicating to provide high quality pharmaceutical R&D service for worldwide range of small and medium customers. With the continuous enhancement of the number and types of the enabling platform services, the number of new and old customers of the Company has been growing steadily. In particular, the Company firmly promotes the strategy of "expanding services following the development of drug molecules", and continuously wins new post-clinical and commercialization projects by establishing close cooperation relationship with customers in the pre-clinical stage. Therefore, extensive customer resources and platform advantages of the Company ensure the capacity digestion of the projects.

3) The leading technical team provides full intellectual security for the successful implementation of the project

The Company has an experienced and outstanding R&D team and has the biggest small molecule technology R&D team in the world. As of 31 December 2019, the Company has 21,744 employees in aggregate, of which 7,472 employees have obtained master's degree or above, 1,022 employees have doctorate or equivalent degree. Meanwhile, the Company owns a large R&D team with 17,000 workers, most of whom have working experience in overseas well-known pharmaceutical companies and education experience in overseas famous colleges and universities. The leading technical team provides full intellectual security for the successful implementation of the project.

4) Profound technical background lays a solid technical foundation for the successful implementation of the project

Efficient and professional technical team is an important part of CDMO enterprise's core competitiveness, and also the basis and key for CDMO enterprise to survive and develop. The Company insists on being technology-driven, continuing to carry on technology innovation and independent research and development of core technologies. The Company's CDMO/CMO service has profoundly accumulated and greatly developed in a number of new technologies. The Company's API research and development has realized the extension of small molecule drugs to a variety of new drug molecules. We have invested in the research and development platform of oligonucleotides and polypeptide drugs, and continue to improve the research and development capabilities in fluid chemistry, enzyme catalysis, crystallization and micronization. In terms of preparations, the Company has developed a comprehensive capacity covering pre-prescription preparation research, preparation process development, R&D production and solid preparation commercial production, and continued to conduct preparation process research of insoluble drugs and the development and application of spray drying, such as spray drying, hot melt extrusion, nano suspension and other new technologies. Therefore, the Company's profound technical foundation lays solid technical foundation for the successful implementation of the project.

2. R&D platform facility upgrade project

STA small molecule innovative drug production technology platform facility upgrade project and WXAT Shanghai R&D platform technology upgrade project are R&D platform facility upgrade projects. The necessity and feasibility analysis for the above projects is as follows:

(1) Necessity of project implementation

1) Due to the factors such as full load operation and technical update, it is difficult for some R&D equipment to meet the needs of efficient operation

The Company is a leading open platform providing integrated pharmaceutical R&D services and technology. With various customer resources, our R&D services have always maintained relatively high capacity utilization. Because some R&D equipment is in or close to the state of full load operation, equipment consumption and depreciation are serious. It is difficult to meet the needs of efficient operation. In addition, Due to the emerging of cutting-edge technologies, some equipment technologies keep rapid upgrading, resulting in functional depreciation, which restricts the normal operation and forward-looking layout of the Company's R&D services. Through R&D equipment purchase and upgrading, we can avoid the above problem, satisfy our daily R&D needs, and maintain the advancement of the R&D services.

2) Improving the Company's R&D capacity and efficiency, promoting service quality and customer experience, thus enhancing the core competitiveness

Advanced R&D service capability and technological innovation are the basis for the survival and development of medical R&D service enterprises, and also the concentrated embodiment of the core competitiveness. The advancement of equipment is an important representative and embodiment of R&D service capability. This offering is implemented to replace and upgrade STA small molecule new drug production facilities and WXAT Shanghai R&D platform facilities, which can avoid the situation of low R&D efficiency and backward technological achievements caused by backward equipment, comprehensively improve the Company's R&D ability and efficiency, and improve the customer's service quality and experience, thus making full use of the Company's R&D advantage in new technical platforms. Furthermore, the upgrading of R&D devices can facilitate the Company to achieve test results, improve test efficiency and service quality, thus enhancing the core competitiveness of the Company.

(2) Feasibility of project implementation

APPTEC is an open-access platform with internationally leading capabilities and capacities, providing comprehensive integrated laboratory research and development and production services from drug discovery, development to marketization to international and domestic leading pharmaceutical companies. After 20 years of rapid development, the Company has accumulated rich industry experience and acquired in-depth industrial insights. Such experiences make us understand the latest industry trends and keep updated to meet customer needs, thus laying a solid foundation for the implementation of the project.

3. Supplement to working capital

(1) To timely grasp the market opportunities, create an innovative and enabling ecosystem, and further consolidate its position in the industry

The Company continues to implement its business expansion and strategic layout based on the industry trend. While maintaining the continuous growth of the main business, the platform innovation capability of the Company has been continuously enhanced. However, in the meantime, the capital pressure arising from the business expansion and strategic deployment keeps increasing. Therefore, with additional liquidity, the Company can promptly grasp the market opportunities, create an innovative and enabling ecosystem, response to domestic and overseas new situations, expand the Company's "moat", and further consolidate its position in the industry.

(2) To meet the daily capital needs, optimize the Company’s capital structure and improve financial soundness

The Company has always focused on the main business, providing customers with a full range of integrated R&D and production services from drug discovery, development to commercialization. Since the listing, the business of each sector of the Company has maintained continuous and rapid growth. As the business scale of the Company continues to increase, the demand for working capital continues to increase. The proceeds are conducive to meeting the daily capital needs, optimizing the Company’s capital structure, and improving its financial soundness.

III. Impact of the private placement of A-shares on the operation management and financial position of the Company

(I) Impact of the private placement of A-shares on the operation management of the Company

Upon the completion of the private placement of A-shares, the proceeds will be mainly used for the STA New Drug Pharmaceutical Development Service and Preparation Production Project (Phase I), STA Global R&D center and supporting project, Changzhou

STA new drug production and R&D center project, Changzhou STA new drug production and R&D integrated project, STA small molecule new drug production facilities upgrade project and WXAT Shanghai R&D platform technology upgrade project and to supplement the working capital. The above-mentioned fund-raising investment projects are in line with the relevant national industrial policies, have broad market development prospects and good economic benefits, and are important strategic measures for the Company's future development. The implementation of projects invested with the proceeds will help the Company expand production capacity, strengthen the service capacity of the whole industrial chain, especially CDMO/CMO, and improve the drug process research and development ability, in order to maintain the advancement of technology, improve R&D efficiency and continuously enhance customer service quality. It can further enhance the Company's financial strength, provide a full guarantee for deepening the "integration, end-to-end" strategic deployment, consolidate the industry position of the Company and enhance its core competitiveness.

(II) Impact of the private placement of A-shares on the financial position of the Company

Upon the completion of the private placement of A-shares, the total assets and net assets of the Company will increase, and the asset-liability ratio will decrease, which will help to optimize the Company's asset-liability structure and improve its ability to resist risks. Upon the completion of the private placement of A-shares, the total share capital of the Company will increase. However, because it takes some time for the fund raising investment project to fully release operating benefits, the Company's financial indexes such as return on equity and earnings per share may be affected to some extent in the short term. However, in the medium and long term, the implementation of the projects invested with proceeds will help the Company expand its business scale, enhance its competitive strength, and promote its sustainable development and profitability.

Section III Discussion and Analysis of the Board of Directors on the Impact of the Private Placement of A-shares on the Company

I. Change caused by the private placement of A-shares to the business, Articles of Association, shareholder structure, senior management structure, corporate governance structure and business revenue structure of the Company

(I) Business change after the private placement of A-shares

As a global leading open capacity and technology platform, the Company provided services for more than 3,900 customers (active customers) from over 30 countries worldwide through the 29 R&D bases and branches worldwide. As a full industry chain platform, it provided the research and development, production and supporting services of various new drugs to the global pharmaceutical enterprises, and carried out some medical device testing and precision medical research and development and production services. The private placement of A-shares can help the Company expand production capacity, strengthen the service capacity of the whole industrial chain, especially CDMO/CMO, and improve the drug process research and development ability, in order to maintain the advancement of technology. It can further enhance the Company's financial strength, provide a full guarantee for deepening the "integration, end-to-end" strategic deployment, which will help promote the development of its principal business.

(II) Impact of the private placement of A-shares on the Articles of Association

Upon the completion of the private placement of A-shares, the registered capital and total share capital of the Company will be increased correspondingly. The Company will adjust the relevant provisions of the Articles of Association such as the share capital according to the offering situation in accordance with the law, and complete the industrial and commercial change registration.

(III) Impact of the private placement of A-shares on the shareholder structure and senior management structure

Upon the completion of the private placement of A-shares, the Company's share capital will increase accordingly, its shareholder structure will change, the shareholding ratio of the Company's original shareholders will change accordingly, but its actual controller will not change.

This Private Placement of A-shares will not lead to changes in the Company's senior management structure.

(IV) Impact of the private placement of A-shares on the business revenue structure

The project to be invested with the proceeds from the private placement of A-shares is the expansion and improvement of the Company's principal business. After the implementation of the project, the profitability of the Company's principal business will be enhanced. Upon the completion of the private placement of A-shares, the Company's business revenue structure will not change significantly.

II. Change of financial position, profitability and cash flow of the Company after the private placement of A-shares

(I) Impact on the financial position

When the proceeds from the private placement of A-shares is available, the total assets and net assets of the Company will increase correspondingly, and the asset-liability ratio and financial risk will be reduced. The Company's capital strength will be further enhanced, its capital structure will be more optimized, and its ability to withstand financial risks will be improved.

(II) Impact on the profitability

Upon the completion of the private placement of A-shares, the total share capital of the Company will increase. However, because it takes some time for the fund raising investment project to fully release operating benefits, the Company's financial indexes such as return on equity and earnings per share may be affected to some extent in the short term. However, in the medium and long term, the private placement of A-shares will help the Company expand its business scale, enhance its competitive strength, and promote its sustainable development and profitability.

(III) impact on cash flow

Upon the completion of the private placement of A-shares, the Company's cash inflow from fund-raising activities will increase, and the cash outflow generated by its investment activities will also increase correspondingly when the proceeds are invested in the fund-raising investment projects. In the future, with the implementation of fund-raising investment projects and the generation of benefits, the Company's competitive strength will continue to improve, and its cash flow from operating activities is expected to further increase.

III. Change in the business relationship, management relationship, connected transactions and horizontal competition between the Company and the actual controller and its affiliates

Prior to the private placement of A-shares, the Company operated independently in terms of business, personnel, assets, institutions and finance, and was not affected by the actual controller and its affiliates. Upon the completion of the private placement of A-shares, there will not be any significant change in the business relationship and management relationship between the Company and the actual controller and its affiliates. The connected transactions between the Company and the actual controller and its affiliates will not be increased, nor will they have horizontal competition due to the private placement of A-shares.

IV. Upon the completion of the private placement of A-shares, whether the Company's capital and assets will be occupied by the actual controller and its affiliates, or whether the listed company will provide security for the controlling shareholder and its affiliates

Upon the completion of the private placement of A-shares, there is no such situation that Company's capital and assets will be occupied by the actual controller and its affiliates, or whether the Company will provide security for the controlling shareholder and its affiliates.

V. Whether the debt structure of the Company is reasonable, whether there is any significant increase in liabilities (including contingent liabilities) and whether the debt ratio will become too low and unreasonable financial costs will be incurred due to the private placement of A-shares

As of December 31, 2019, the gearing ratio of the Company (consolidated) was 40.46%, and the debt structure was reasonable. Upon the completion of the private placement of A-shares, the gearing ratio will be reduced, and its ability to withstand risks will be further enhanced. There will not be any significant increase in liabilities (including contingent liabilities) due to the private placement of A-shares, its debt ratio will not become too low and no unreasonable financial costs will be incurred.

VI. Risks related to this private placement of A-shares

When evaluating the private placement of A-shares, investors shall, in addition to other information provided in the plan, take the following risk factors into account:

(I) The risk of falling demand for medical research and development services

The businesses of the Company rely on the spending and demands of customers (including multinational pharmaceutical companies, biotechnology companies, start-ups, virtual companies, as well as academics and non-profit research institutions) in the discovery, analysis and testing, development, production and other R&D services of drug, cell and gene therapy, and medical devices. In recent years, thanks to the growth of the global pharmaceutical market, the increase of the R&D budget of customers and the increase of the outsourcing businesses of customers, the demand for the Company's services has been on the rise. However, if the trend of industry development slows down in the future, or the proportion of business outsourcing declines, it may have a negative impact on the Company's business. In addition, mergers and acquisitions and budget adjustments in the pharmaceutical industry may also affect the R&D spending and outsourcing needs of customers and adversely affect the Company's business.

(II) The risk of regulatory policy changes in the industry

The pharmaceutical research and development service industry is a highly regulated industry. Its regulatory authorities include the drug regulatory agencies in the countries or regions where the Company conducts business. These regulatory authorities generally regulate the pharmaceutical research and development service industry by formulating relevant policies and regulations, and the scope of supervision includes technological indicators, cross-border outsourcing services, standards and requirements of production and other aspects. A mature system of industrial policies and regulations has been created for the pharmaceutical R&D service industry in overseas developed countries. In China, the State Food and Drug Administration and other competent authorities have been gradually formulating and improving relevant laws and regulations according to the market development. If the Company fails to timely adjust its business strategy to cope with the changes in industrial policies and regulations of the pharmaceutical R&D service industry in relevant countries or regions, it may have a potential negative impact on its operation.

(III) The risk of increased competition in the pharmaceutical research and development services industry

At present, the global pharmaceutical research and development service market competition is increasingly fierce. The competitors faced by the Company in specific service fields mainly include various professional CRO/CDMO/CMO institutions or the R&D departments of large pharmaceutical companies. Most of them are international large pharmaceutical companies or R&D institutions, which have strong financial resources, technical capabilities and customer coverage. In addition to the above mature competitors, the Company also faces competition from new entrants to the market, which may have strong competitiveness in capital strength, business channels, research strength in segmented fields and other aspects. If the Company fails to strengthen its comprehensive R&D technology advantage, platform service advantage and other competitive advantages, it may face risks caused by intensified market competition and weakening of its own competitive advantage.

(IV) Business compliance risk

The Company always attaches great importance to operation in compliance. It has gradually established a comprehensive internal control system, requiring its business personnel to comply with relevant national laws and regulations and carry out business activities in accordance with the law. The Company has developed a sound internal control system and business compliance approval system and developed standard operating procedures to ensure the legitimate and compliant operation of daily business, but due to the large number of subsidiaries held by the Company, if in practice the parent company and the senior management have insufficient regulatory effectiveness over each subsidiary or each department, and as a result, the Company fails to continuously obtain the necessary qualification for daily research and development, testing and analysis, and production business, or fails to complete the necessary approval and filing process, or fails to timely respond to the regulatory requirements or new requirements raised by relevant competent authorities, the operation of the Company may be adversely impacted.

(V) The risk of overseas operation and international policy change

The Company has set up or acquired a number of new enterprises abroad to promote the development of its overseas business, accumulating extensive overseas operating experience over the years. During the Reporting Period, the Company's overseas income accounted for a large proportion of the main business income. The Company needs to comply with the laws and regulations of the country and region where it is located to conduct business and establish institutions abroad, and to a certain extent, it needs to rely on overseas raw material suppliers, customers and technical service providers to ensure the orderly operation of daily business. If the overseas operation status is affected in case of the following situations, such as major changes in laws and regulations, industrial policies or political and economic environment of the country or region where the overseas business is located, or unpredictable factors such as international relations tensions, war, trade sanctions or other force majeure, it may bring potential adverse effects to the normal operation and sustainable development of the Company's overseas business.

(VI) The risk of turnover of core technical staff

The core technical staff is an important part of the Company's core competitiveness, but also the basis and key to its survival and development. Whether the Company can maintain the stability of the technical staff and continuously attract excellent talents to join the Company will decide whether the Company can continue to maintain the leading edge in the technology industry, as well as the stability and durability of research and development, production services. If the Company's salary level loses its competitive advantage compared with competitors in the same industry, the incentive mechanism for core technical personnel cannot be implemented, or the human resource control and internal promotion system cannot be effectively implemented, the Company's core technical personnel will be lost, and the core competitiveness and sustained profitability of the Company will be adversely impacted.

(VII) The risk of business development failure

The Company expects growing customer demand for outsourcing of pharmaceutical research and development, commercial production and clinical development. In order to continuously meet the market demand and grasp the development opportunities, the Company needs to invest a lot of capital and resources to continuously promote the construction of capacity and scale on a global scale. If the Company's new business suffers from unforeseen delays due to construction and regulatory issues, or the Company fails to achieve the expected growth, Company's business, finance, operating performance and prospects may be adversely impacted.

(VIII) Exchange rate risk

In 2019, the income of the major business of the Company was mainly denominated in US dollar. The exchange rate of renminbi has been significantly fluctuating in recent years. The Company recorded foreign exchange translation gain/loss of RMB20.6678 million, RMB31.0023 million and –RMB138.8868 million in 2019, 2018 and 2017, respectively. If renminbi appreciate significantly in the future, certain costs denominated in foreign currency may increase. The volume of orders may reduce as the prices of our services denominated in foreign currency increase and the profitability of the Company may be affected directly.

(IX) The risk that unexpected events and force majeure may affect the operation of the Company

Public health emergencies or force majeure such as earthquake or typhoon may affect the operation of the Company. The Company has developed a business continuity plan to facilitate the recovery of key business, functions and technologies in a timely and organized manner before, during and after an emergency or disruptive event, in order to ensure its business can continue to develop in a viable and stable manner. However, if the Company's business continuity plan is unable to cope with the impact of related emergencies and force majeure, the Company's business, finance, operating performance and prospects may be adversely affected.

(X)The risks related to the fund-raising investment project

Before deciding to raise funds to invest in the project, the Company conducted a prudent and sufficient feasibility study. The fund-raising investment project is in line with the national industrial policy and industry development trend. It has a good development prospects and is expected to achieve good economic benefits. However, the feasibility analysis is based on the current market environment, industrial policy, technical level, manpower reserve, and other relevant factors and the changing trend. If the actual situation of relevant factors changes, it may have a negative impact on the implementation schedule and benefit realization of the project, thus affecting the overall business result of the Company.

(XI) Risk of examination and approval

The plan for the private placement of A-shares has been approved by the board of directors of the Company. According to the provisions of relevant laws and regulations, the plan for the private placement of A-shares still needs to be reviewed and approved by the general meeting of the Company, and approved by the CSRC and other relevant approving authorities. There exists uncertainty on whether the private placement of A-shares will be approved or authorized and the final approval or authorization time.

(XII) The risk of earnings per share and return on equity being diluted

When the proceeds from the private placement of A-shares is available, the Company will actively allocate capital resources, timely and effectively implement the fund raising investment projects. In view of the need for certain process and time to generate benefits from fund raising and investment projects, the Company's profit realization and shareholder return are still mainly dependent on its existing business before the fund raising and investment projects generate benefits. Therefore, upon the completion of the private placement of A shares, there is a risk that the financial indexes of immediate return, such as earnings per share and weighted average return on equity, will be diluted in the short term, since the Company's total share capital and net assets are increased.

Section IV Dividend distribution of the issuer

I. Profit distribution of the Company

The provisions on the profit distribution policy in the Articles of Association of the Company in force are as follows:

Article 240 When the Company distributes the after-tax profits of the current year, it shall allocate 10% of the profits into the statutory reserve fund. If the accumulated amount of the statutory reserve fund reaches 50% of the registered capital, the Company is released from the obligation of withdrawing statutory reserve fund.

Where the Company's statutory reserve fund is insufficient to cover the previous year's losses, the Company shall first use the profits of the current year to cover the losses before withholding the statutory reserve fund according to the provisions of the previous paragraph.

After the Company withdraws the statutory reserve fund from the after-tax profit, it may also withdraw optional reserve fund from the after-tax profit upon the resolution of the general meeting.

The remaining after-tax profits of the Company after making up the losses and withdrawing the reserve funds may be distributed according to the proportion of shares held by the shareholders.

Where the general meeting, in violation of the provisions of the preceding paragraph, distributes the profits to the shareholders before the Company makes up the losses and withdraws the statutory reserve fund, the shareholders must return the profits distributed in violation of the provisions to the Company.

The Company’s shares held by the Company shall not participate in the distribution of profits.

Article 241 The reserve fund of the Company shall be used to cover the Company's losses, expand its production and operation or to increase its capital. However, the capital reserve fund shall not be used to cover the loss of the Company. The capital reserve fund consists of the following:

(I) the premium from the issuance of shares in excess of their face value;

(II) Other income to be included in the capital reserve fund as stipulated by the competent financial department of the State Council.

When the statutory reserve fund is converted into capital, the remaining statutory reserve fund shall be no less than 25% of the registered capital of the Company before the capital increase.

Article 242 After the Company pays the income tax, the profit after making up the loss of the previous year shall be distributed in the following order:

(I) Withdrawal of statutory reserve fund;

(II) Withdrawal of optional reserve fund;

(III) Distribution to shareholders

Article 243 Basic principles for profit distribution of the Company:

(I) The Company shall give full consideration to the return to the investors and distribute dividends to the shareholders in accordance with the proportion of the profit attributable to the shareholders in the current year;

(II) The Company’s profit distribution policy shall maintain continuity and stability, for the long term interest of the Company, in the interest of all shareholders as a whole, and for sustainable development of the Company;

(III) The Company shall give priority to dividend distribution in cash.

Article 244 Polices for profit distribution of the Company:

(I) Form of profit distribution: The Company distributes profits in cash, stock or a combination of cash and stock. Where cash dividends are feasible, the Company shall use cash dividends for profit distribution. Where conditions permit and no cash dividend is paid, the reasons shall be fully disclosed.

(II) Interval of profit distributions: The Company adopts the annual profit distribution policy in principle, and the Board of Directors may propose the interim profit distribution plan according to the profit status, cash flow and capital demand plan, which shall be implemented after being examined and approved by the extraordinary general meeting.

(III) Specific conditions for the Company to issue cash dividends:

Except in special circumstances, the Company shall first distribute dividends in cash when it is profitable in the current year and the accumulative undistributed profit is positive. Special circumstances refer to:

1. The net operating cash flow of the year is negative;

2. The Company has a major outward investment plan or a major capital expenditure plan (except for fund raising projects) for the next 12 months. Major investment plan or major capital expenditure refers to: the accumulated capital expenditure which reaches or exceeds more than 20% of the Company's audited net assets in the recent fiscal year, such as the Company's planned outward investment, acquisition of assets or purchase of equipment;

3. Other circumstances which the Board of Directors considers inappropriate for a cash dividend.

(IV) Conditions for distributing dividends in shares by the Company: Where the Company’s business is in a sound condition, and the Board considers that the stock price of the Company does not reflect its share capital size and distributing dividend in shares will be favorable to all the shareholders of the Company as a whole, provided that the above conditions for cash dividend distribution are fully satisfied, the Company may propose dividend distribution in shares.

(V) Minimum ratio of cash dividend and differentiated cash dividend policies

In any three consecutive years, the Company's cumulative cash distribution shall not be less than 30% of the average annual distributable profit realized in those three years. The annual profit distributed in cash shall be generally no less than 10% of the distributable profit realized in the current year. Where shares are repurchased by means of offer or centralized bidding, using cash as the consideration, it shall be regarded as the Company's cash dividend and included into the calculation of relevant cash dividend proportions.

The Board shall take into full account of various factors such as features of the industries where the Company operates, the stage of development of the Company, its own business model, level of profitability, and whether there is significant capital expenditure arrangement, and put forward a differentiated cash dividend policy in accordance with the procedures as required by this Articles of Association:

1. If the Company is in mature development stage and has no significant capital expenditure arrangement, when profit distribution is made, the cash dividend shall at least account for 80% of the profit distribution;

2. If the Company is in mature development stage and has any significant capital expenditure arrangement, when profit distribution is made, the cash dividend shall at least account for 40% of the profit distribution;

3. If the Company is in growth stage and has any significant capital expenditure arrangement, when profit distribution is made, the cash dividend shall at least account for 20% of the profit distribution;

4. If it is difficult to distinguish the development stage of the Company and there are major capital expenditure arrangements, the profit distribution may be dealt with pursuant to the preceding provisions.

Article 245 Procedures for reviewing the profit distribution plan

(I) The Company's profit distribution scheme shall be prepared by the management according to the Company's actual profitability, cash flow status and future business plan and submitted to the Board of Directors for review. The Board of Directors shall fully discuss the rationality of the profit distribution scheme and the independent directors shall express clear opinions. After it is approved by the Board of Directors, the profit distribution scheme shall be submitted to the general meeting for consideration.

(II) The Board of Directors shall carefully study and discuss the timing, conditions, and minimum proportion of cash dividend of the Company, conditions for adjustment, and requirements for decision-making procedures when formulating the specific proposal of cash dividend. Independent Directors shall express clear opinions. Independent Directors can collect views from minority shareholders to put forward the profit distribution proposal and directly propose to the Board for consideration.

(III) Before the general meeting deliberates the profit distribution scheme, the Company shall actively communicate with the shareholders (especially the minority shareholders) through various channels, and listen to the opinions and claims of the minority shareholders. In addition to listening to the opinions of shareholders at the general meeting, we shall take the initiative to communicate with shareholders, especially minority shareholders, through the hotline of shareholders and the investor relations interactive platform, make prompt response to the concerns of the minority shareholders, and provide network voting method for shareholders when general meetings are held.

(IV) When the Company choose not to distribute cash dividend due to special circumstances set out in paragraph (III) under Article 244, the Board of Directors shall give special explanations on the specific reasons for not distributing cash dividend, the exact use of the Company's retained earnings and the expected investment income, which shall be commented by the independent directors and submitted to the general meeting for consideration, and then disclosed in the annual report and on the designated media of the Company. The profit distribution scheme for the current year shall be passed with more than 2/3 of the votes held by the shareholders attending the general meeting.

Article 246 Implementation of the profit distribution plan

When resolution is made by the general meeting on the profit distribution scheme, the Board shall complete the dividend (or share) distribution issues in 2 months after the general meeting.

Article 247 Change of the Polices for profit distribution

The Company shall strictly implement the profit distribution policy stipulated in this Articles of Association and the specific proposal of profit distribution considered and approved at the general meeting. If the change of the Company's external operating environment has a major impact on the company's production and operation, or if the Company's operation has been subject to a major change, and it is indeed necessary to adjust the profit distribution policy set out in the Articles of Association, the Company may adjust the profit distribution policy.

When the Company adjusts the profit distribution policy, the Board of Directors shall make a special discussion, demonstrate the adjustment reasons in detail, and form a written demonstration report. The proposal on adjusting the profit distribution policy shall be deliberated by the Board of Directors, in the course of which the independent directors shall express clear opinions, submitted to the general meeting for consideration, and approved by no less than 2/3 of the voting rights held by the shareholders attending the general meeting.

II. Dividend distribution of the issuer in the last 3 years

(I) Profit distribution of the Company in the last 3 years

1. Information on the profit distribution for 2016

The Company did not make cash dividend distribution for 2016.

2. Information on the profit distribution for 2017

The Company did not make cash dividend distribution for 2017.

3. Information on the profit distribution for 2018

On June 3, 2019, the 2018 annual general meeting of the Company deliberated and approved the proposal of annual profit distribution plan for 2018, in accordance of which, the Company would pay a total cash dividend of RMB 678,636,125.88 (tax included) based on the total share capital on the equity registration date for the 2018 annual profit distribution. As of July 2019, the 2018 cash dividend has been fully distributed.

(II) Cash dividends of the Company in the last 3 years

The profits that the issuer has accumulatively distributed in cash in the last three years accounted for 45.62% of the average annual distributable profits realized in the last three years, detailed as follows:

Unit: RMB

Item	2018	2017	2016
Cash dividend amount (tax included)	678,636,125.88	0	0
Net profits attributable to shareholders of listed company	2,260,523,106.21	1,227,093,479.30	974,980,314.37
Cash dividend proportion/Net profits attributable to shareholders of listed company	30.02%	0.00%	0.00%
Cash dividend amount accumulated in the last 3 years	678,636,125.88		
Average annual distributable profit in the last 3 years	1,487,532,299.96		
Percentage of the cash dividend amount accumulated in the last 3 years in the average annual distributable profit realized in the last 3 years	45.62%		

The profit that the Company intends to distribute in cash for 2019 is RMB 556,429,640.95 (inclusive of tax), accounting for 30.00% of the net profits attributable to shareholders of listed company for 2019, as approved at the 39th meeting of the first board of directors and the annual meeting of the board of directors for 2019. This profit distribution plan shall be subject to the approval of the 2019 annual general meeting of the Company.

(III) Use of the undistributed profits in the last 3 years

To maintain the sustainable development of the Company, the remaining undistributed profit, which arises from the net profit attributable to the shareholders of listed company realized in the last 3 years after the withdrawal of statutory surplus reserve and the dividend distribution to the shareholders, was carried forward to next year, and mainly used to support the production and operation, and supplement the operating cash flow, in order to expand business scale, optimize the business structure, promote the market competitiveness and ability to resist risks of the Company.

III. Shareholder Return Plan for the Next 3 Years (2020 to 2022)

In accordance with the Listed Company Regulation Guideline No.3 - Cash Dividend of Listed Companies (CSRC Announcement (2013) No.43), the Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies (Zheng Jian Fa (2012) No. 37) promulgated by the CSRC and the Articles of Association, the Company formulated the Shareholder Return Plan for the Next 3 Years (2020 to 2022) and approved it at the 39th meeting of the first board of director on March 24, 2020 as well as the annual meeting of the Board of Directors for 2019, in order to improve the decision-making process and mechanism for profit distribution of the Company, increase transparency and maneuverability of dividend distribution decision, and provide positive returns to investors, while ensuring the sustainability of the Company.

The main contents of the Shareholder Return Plan for the Next 3 Years (2020 to 2022) are as follows:

(I) Considerations for formulating the shareholder return plan

We shall focus on the long-term and sustainable development of the Company and the interests of the shareholders in profit distribution. We need to establish sustainable, stable and scientific planning and return mechanism for investors and make institutional arrangements for profit distribution according to the Articles of Association and on the basis of considering the strategic development goal and the willingness of the shareholders, as well as the Company's earnings and cash flow, business development plan and stage of development, capital demand, social capital cost and the external financing environment, in order to ensure the continuity and stability of profit distribution policy.

(II) Principles for formulating the shareholder return plan

The Company shall implement an active, sustained and stable profit distribution policy, attach importance to the reasonable return on investment for investors, and give consideration to the sustainable development of the Company. The Board of Directors, the Board of Supervisors and the general meeting shall fully consider the opinions of the independent directors and the public investors in the decision-making and argumentation of the profit distribution policy. Subject to the Company's profit distribution principle, to ensure the Company's normal operation and long-term development, the Company shall adhere to the basic principle of making distribution via cash dividends.

(III) Details of the shareholder return plan

1. Order of profit distribution

When the Company distributes the after-tax profits of the current year, it shall allocate 10% of the profits into the statutory reserve fund. If the accumulated amount of the statutory reserve fund reaches 50% of the registered capital, the Company is released from the obligation of withdrawing statutory reserve fund. Where the Company's statutory reserve fund is insufficient to cover the previous year's losses, the Company shall first use the profits of the current year to cover the losses before withholding the statutory reserve fund.

After the Company withdraws the statutory reserve fund from the after-tax profit, it may also withdraw optional reserve fund from the after-tax profit upon the resolution of the general meeting.

The remaining after-tax profits of the Company after making up the losses and withdrawing the reserve funds may be distributed according to the proportion of shares held by the shareholders.

2. Form of profit distribution

The Company distributes dividends in the form of cash, stock or a combination of cash and stock. Where cash dividends are feasible, the Company shall use cash dividends for profit distribution.

3. Interval of profit distributions

The Company adopts the annual profit distribution policy in principle, and the Board of Directors may propose the interim profit distribution plan according to the profit status, cash flow and capital demand plan, which shall be implemented after being examined and approved by the extraordinary general meeting.

4. Conditions for cash dividends

Except in special circumstances, the Company shall first distribute dividends in cash when it is profitable in the current year and the accumulative undistributed profit is positive. Special circumstances refer to: The net operating cash flow of the year is negative; The Company has a major outward investment plan or a major capital expenditure plan (except for fund raising projects) for the next 12 months. Major investment plan or major capital expenditure refers to: the accumulated capital expenditure which reaches or exceeds more than 20% of the Company's audited net assets in the recent fiscal year, such as the Company's planned outward investment, acquisition of assets or purchase of equipment; Other circumstances which the Board of Directors considers inappropriate for a cash dividend.

5. Conditions for issuing stock dividends

The Company can propose a stock dividend distribution plan when the Company is in good operating condition, and the Board of Directors believes that the Company’s stock price does not match the Company’s share capital and that issuing stock dividends is beneficial to the overall interests of all shareholders of the Company, under the premise that the above-mentioned conditions for cash dividends are met.

6. Minimum ratio of cash dividend and differentiated cash dividend policies

In any three consecutive years, the Company's cumulative cash distribution shall not be less than 30% of the average annual distributable profit realized in those three years. The annual profit distributed in cash shall be generally no less than 10% of the distributable profit realized in the current year.

Within three years from the date of implementation of this plan, the Board of Directors will propose a differentiated cash dividend policy in accordance with the procedures stipulated in the Articles of Association after comprehensively considering the characteristics of the industry, the development stage, business model, profit level of the Company, whether there is a major capital expenditure arrangement and other relevant factors: If the development stage of the Company is in the mature stage and there is no significant capital expenditure arrangement, when making profit distribution, the lowest proportion of cash dividends in the profit distribution shall reach 80%; If the development stage of the Company is in the mature stage and there are major capital expenditure arrangements, when making profit distribution, the proportion of cash dividends in the profit distribution shall be at least 40%; If the development stage of the Company is in the growth stage and there are major capital expenditure arrangements, when making profit distribution, the proportion of cash dividends in the profit distribution shall be at least 20%;

If it is difficult to distinguish the development stage of the Company and there are major capital expenditure arrangements, the profit distribution may be dealt with pursuant to the preceding provisions.

(IV) Formulation cycle of the shareholder return plan and relevant decision-making mechanism

1. The Company shall review the Shareholder Return Plan for the Next 3 Years at least once every three years to determine whether the ongoing shareholder return plan needs to be modified.

2. The Company's profit distribution scheme shall be prepared by the management according to the Company's actual profitability, cash flow status and future business plan and submitted to the Board of Directors for review. The Board of Directors shall fully discuss the rationality of the profit distribution scheme and the independent directors shall express clear opinions. After it is approved by the Board of Directors, the profit distribution scheme shall be submitted to the general meeting for consideration.

3. The Board of Directors shall carefully study and discuss the timing, conditions, and minimum proportion of cash dividend of the Company, conditions for adjustment, and requirements for decision-making procedures when formulating the specific proposal of cash dividend. Independent Directors shall express clear opinions.

Independent Directors can collect views from minority shareholders to put forward the profit distribution proposal and directly propose to the Board for consideration.

4. When considering the profit distribution scheme, the general meeting shall actively communicate with the shareholders (especially the minority shareholders) through various channels, listen to the opinions and claims of the minority shareholders, make prompt response to the concerns of the minority shareholders, and provide network voting method for shareholders when the general meeting is held.

5. When the Company choose not to distribute cash dividend due to special circumstances, the Board of Directors shall give special explanations on the specific reasons for not distributing cash dividend, the exact use of the Company's retained earnings and the expected investment income, which shall be commented by the independent directors and submitted to the general meeting for consideration, and then disclosed on the designated media of the Company.

6. The Company shall strictly implement the profit distribution policy stipulated in the Articles of Association and the specific proposal of profit distribution considered and approved at the general meeting. If the change of the Company's external operating environment has a major impact on the Company's production and operation, or if the Company's operation has been subject to a major change, and it is indeed necessary to adjust the profit distribution policy set out in the Articles of Association, the Company may adjust the profit distribution policy. When the Company adjusts the profit distribution policy, the Board of Directors shall make a special discussion, demonstrate the adjustment reasons in detail, and form a written demonstration report. The proposal on adjusting the profit distribution policy shall be deliberated by the Board of Directors, in the course of which the independent directors shall express clear opinions, submitted to the general meeting for consideration, and approved by no less than 2/3 of the voting rights held by the shareholders attending the general meeting.

(V) Supplementary provisions

Any matters not stated in this plan shall be executed according to the relevant laws and regulations, normative documents and the Articles of Association. This plan shall be interpreted by the Board of Directors, become effective and be implemented from the date when it is approved by the general meeting.

Section V Impact of the immediate return dilution resulting from the private placement of A-shares on the key financial indexes of the Company and the measures taken by the Company

According to the relevant requirements of the Opinion of General Office of the State Council on Further Enhancing Protection of Rights and Interests of Medium and Small Investors in Capital Market (Guo Ban Fa [2013] No.110), the Several Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market issued by the State Council (Guo Fa [2014] No.17) and the Instructions on Issues Related to Immediate Return Dilution Arising from IPO, Refinancing and Major Asset Restructuring (the CSRC Announcement [2015] No.31), the Company has made analysis on the immediate return dilution influence of this private placement of A-shares , and proposed mitigation and remediation measures, in order to protect the right to know and safeguard the interests of the minority investors. The relevant parties have made a commitment to ensure the effective implementation of the mitigation and remediation measures. The details are as follows:

I. Impact of the immediate return dilution resulting from this private placement of A-shares on the key financial indexes of the Company

(I) Key assumptions and explanations

1. It is assumed that the private placement of A-shares will be completed by the end of November 2020 (the completion time is only an assumption used for calculating relevant data, and subject to actual completion time after the approval of the CSRC);

2. It is assumed that there are no major adverse changes in the macroeconomic environment and securities market, and no major adverse changes in the Company's operating environment, industrial policies, major cost prices, and exchange rate;

3. It is assumed that the number of A shares issued in the private placement is 75 million shares (the final number of shares issued is based on the number of shares approved by the

CSRC). According to the proposal on profit distribution and transfer of capital reserve fund to share capital of the Company for 2019, when calculating the size of issuance, the influence of transfer of capital reserve fund to share capital on the share capital shall be considered, but the proposal for transfer of capital reserve fund to share capital shall be submitted to the general meeting for deliberation and approval. This assumption is only used to calculate the impact of this private placement of A-shares on the Company's key financial indexes, and does not represent the Company's judgment on the actual number of shares issued. The actual number of shares issued shall prevail;

4. Without considering the offering cost, it is assumed that the total fund raised in this private placement of A-shares is RMB 6,527.94 million;

5. According to the proposal on profit distribution and transfer of capital reserve fund to share capital of the Company for 2019, the cash dividend amount is RMB556,429,640.95 (tax inclusive), and the amount of capital reserve fund transferred to share capital is 660,450,612 shares (based on the number of shares in issue on the date of this proposal). It is assumed that the completion date of the scheme is June 2020. Save for above mentioned profit distribution, it is assumed that the Company will not make interim profit distribution in 2020, and there are no other possible equity changes;

6. According to the needs of scenario analysis, it is assumed that the net profit attributable to the owner of parent company before and after the deduction of non-recurring profit and loss in 2020 will be calculated by the following three growth rates on the basis of the corresponding audited financial data in 2019: (1) no growth; (2) growth of 10%; (3) growth of 20%;

7. The influence on the business operation and financial position of the Company (such as financial expense, investment income, etc.) when the proceeds from the offering are available is not taken into account in the calculation;

8. When calculating the Company's weighted average return on equity, the impact of factors other than profit distribution and the transfer of capital reserve fund to share capital, fund raising and net profit on the Company's net assets is not taken into account;

9. When estimating the total share capital of the Company, only the impact of the private placement of A-shares and transfer of capital reserve fund to share capital is considered, based on the total share capital of the Company as of the date of the plan (1,651,126,531 shares), and the change of share capital caused by other adjustment matters, such as share repurchase, is not considered. Upon the completion of the private placement of A-shares and transfer of capital reserve fund to share capital, the total share capital of the Company will increase from 1,651,126,531 shares to 2,416,577,143 shares;

10. The above assumptions are only used to test the impact of the immediate return dilution influence of the private placement of A-shares on the Company's key financial indexes. They do not represent the Company's judgment on the operating conditions and trends in 2020 and do not constitute a profit forecast. Investors shall not make investment decisions based on them.

(II) The impact of this private placement of A-shares on financial indexes, such as earnings per share and return on equity

Based on the above assumptions and explanations, the Company has calculated the impact of the private placement of A-shares on its earnings per share, return on equity and other key financial indexes, detailed as follows:

Item	As of December 31, 2019 or in 2019	As of December 31, 2020 or in 2020	
		Before this private placement of A-shares	After this private placement of A-shares
Assumption 1: The net profit attributable to the Company's ordinary shareholders before and after the deduction of non-recurring profit and loss in 2019 and 2020 is flat with that of the previous year			
Net profit attributable to the ordinary shareholders of the Company (RMB 10 thousand)	185,455.09	185,455.09	185,455.09
Net profit attributable to the ordinary shareholders of the Company after the deduction of non-recurring profit and loss (RMB 10 thousand)	191,428.33	191,428.33	191,428.33
Basic earnings per share (RMB/share)	0.81	0.81	0.81
Diluted earnings per share (RMB/share)	0.80	0.80	0.80
Basic earnings per share after the deduction of non-recurring profit and loss (RMB/share)	0.84	0.84	0.83

Diluted earnings per share after the deduction of non-recurring profit and loss (RMB/share)	0.83	0.83	0.82
Weighted average return on equity	10.58%	10.30%	9.99%
Weighted average return on equity after the deduction of non-recurring profit and loss	10.92%	10.63%	10.31%
Assumption 2: The net profit attributable to the Company's ordinary shareholders before and after the deduction of non-recurring profit and loss in 2019 and 2020 grows by 10% from that of the previous year			
Net profit attributable to the ordinary shareholders of the Company (RMB 10 thousand)	185,455.09	204,000.60	204,000.60
Net profit attributable to the ordinary shareholders of the Company after the deduction of non-recurring profit and loss (RMB 10 thousand)	191,428.33	210,571.16	210,571.16
Basic earnings per share (RMB/share)	0.81	0.89	0.89
Diluted earnings per share (RMB/share)	0.80	0.88	0.88
Basic earnings per share after the deduction of non-recurring profit and loss (RMB/share)	0.84	0.92	0.92
Diluted earnings per share after the deduction of non-recurring profit and loss (RMB/share)	0.83	0.91	0.91
Weighted average return on equity	10.58%	11.27%	10.93%
Weighted average return on equity after the deduction of non-recurring profit and loss	10.92%	11.63%	11.28%
Assumption 3: The net profit attributable to the Company's ordinary shareholders before and after the deduction of non-recurring profit and loss in 2019 and 2020 grows by 20% from that of the previous year			
Net profit attributable to the ordinary shareholders of the Company (RMB 10 thousand)	185,455.09	222,546.11	222,546.11
Net profit attributable to the ordinary shareholders of the Company after the deduction of non-recurring profit and loss (RMB 10 thousand)	191,428.33	229,713.99	229,713.99
Basic earnings per share (RMB/share)	0.81	0.97	0.97
Diluted earnings per share (RMB/share)	0.80	0.96	0.96
Basic earnings per share after the deduction of non-recurring profit and loss (RMB/share)	0.84	1.01	1.00
Diluted earnings per share after the deduction of non-recurring profit and loss (RMB/share)	0.83	0.99	0.99
Weighted average return on equity	10.58%	12.15%	11.79%
Weighted average return on equity after the deduction of non-recurring profit and loss	10.92%	12.54%	12.17%

Note: The indexes in the table are calculated based on the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 - Calculation and Disclosure of Rate of Return on Common Shareholders' Equity and earnings Per Share (Revision 2010).

II. Risk reminder for immediate return dilution resulting from this private placement of A-shares

Upon the completion of this private placement of A-shares, the total share capital and net asset scale of the Company will be increased. Although this private placement of A-shares will be good for the Company to create new profit growth point and improve its profitability, because it takes a certain period of time to construct and implement the fund-raising investment projects, and the project benefits can only be gradually reflected after the construction period, the financial indexes of the Company, such as the return on equity and earnings per share, are at risk of decline in the short term. The investors are reminded to be alert of the risk that this private placement of A-shares may dilute the immediate return.

In the process of calculating the dilution impact of this private placement of A-shares on the immediate return, the assumption analysis of the net profit attributable to the shareholders of the parent company before and after the deduction of non-recurring profit and loss in 2020 is not the Company's profit forecast. The mitigation and remediation measures to address the immediate return dilution risks do not guarantee the future profits of the Company, and investors shall not make investment decisions based on them. The Company shall not be liable for any loss caused by the investor's investment decision. Investors are advised to pay attention to this.

III. Necessity and rationality of this private placement of A-shares

For the necessity and rationality of this private placement of A-shares, please refer to “Section II Feasibility Analysis of the Board of Directors on Use of Proceeds” in this plan.

IV. The relation between the fund-raising investment project and the existing businesses, as well as the talent, technology and market reserve of the Company

(I) The relation between the fund-raising investment project and the existing

businesses

The Company is a world leading open capacity and technology platform, providing global bio-pharmaceutical industry with a full range of integrated new drug research and development and production services from drug discovery, development to marketization. This fund-raising investment project is designed to upgrade production capacity and technology based on the existing main business. We will improve the production capacity, improve the research and development conditions, and enhance the technology development strength by upgrading the research and development equipment, working environment, production workshops and supporting facilities, so as to better enable customers to develop, innovate and manufacture products. Through capacity expansion, R&D service capability improving and upgrading and further financial strength enhancement, we will deepen the "integrated, end-to-end" new drug R&D and production service system to meet the ever-expanding and diversified global customer demand, increase the stickiness of the customers, and strengthen the service capacity of the whole industrial chain. It is of great positive significance for the Company to expand the scope of services, enhance ability of business services, improve the operating revenue and then improve the market share.

(II) The talent, technology and market reserve of the Company

1. Talent reserve

As of December 31, 2019, the Company had 21,744 employees worldwide, including 7,472 with master's degrees or above and 1,022 with doctorates or equivalent. In terms of professional composition, the Company has 17,872 R&D personnel, 1,723 production personnel, 109 sales personnel, and 2,040 financial, management and administrative personnel. The Company will continue to retain outstanding talents through recruitment, training, promotion and other means, in order to maintain the Company's high level of service, industry-leading professional status, and continue to meet customer demand. Therefore, the Company has sufficient and reasonably structured talent reserves to ensure the effective implementation of fund-raising investment projects.

2. Technical reserve

The company is committed to enabling pharmaceutical research, development innovation using the latest science and technology, in order to help customers turn new drugs from an idea into a reality. The Company is in a leading position in the industry in terms of service capability and scale, which helps the Company to better predict the future scientific and technological development and emerging R&D trends in the industry and seize new development opportunities. After years of development and accumulation, the Company owns a number of industry leading technologies and capabilities in CDMO/CMO services. The Company's API research and development has realized the extension of small molecule drugs to a variety of new drug molecules. We have invested in the research and development platform of oligonucleotides and polypeptide drugs, and continue to improve the research and development capabilities in fluid chemistry, enzyme catalysis, crystallization and micronization. In terms of preparations, the Company has developed a comprehensive capacity covering pre-prescription preparation research, preparation process development, R&D production and solid preparation commercial production, and continued to conduct preparation process research of insoluble drugs and the development and application of spray drying, hot melt extrusion, nano suspension and other new technologies. Therefore, after years of research and development, production and operation, the Company has sufficient technical reserve for the implementation of the fund-raising investment project.

3. Market reserve

As of December 31, 2019, the Company provided services for more than 3,900 customers (active customers) from over 30 countries worldwide through the 29 R&D bases and branches worldwide. As a full industry chain platform, it provided the research and development, production and supporting services of various new drugs to the global pharmaceutical enterprises, and carried out some medical device testing and precision medical research and development and production services. The Company's customers include the top 20 pharmaceutical companies in the world. With the continuous enhancement of the number and types of the enabling platform services, the number of new and old customers of the Company has been growing steadily. In particular, the Company firmly promotes the strategy of "expanding services following the development of drug molecules", and continuously wins new post-clinical and commercialization projects by establishing close cooperation relationship with customers in the pre-clinical stage. As at the end of 2019, the Company had about 1,000 pre-clinical, clinical and commercialization projects, including 40 Phase III clinical trials and 21 projects in commercial manufacturing. Therefore, the Company’s rich customer portfolio and strong market development capabilities have laid a solid market foundation for the fund-raising investment project.

V. The mitigation and remediation measures for the immediate return dilution resulting from this private placement of A-shares

In order to effectively prevent the risk that the immediate return may be diluted due to this private placement of A-shares, the Company plans to take the following measures to ensure the effective use of the proceeds, improve the Company's business result, and realize the sustainable business development and reasonable return on investment for shareholders.

(I) To enhance the proceeds management and improve the utilization rate of the proceeds

The Company has formulated the Measures for the Management of Raised Funds to standardize the use of raised funds and improve the use efficiency of the proceeds in accordance with the Company Law, the Securities Law, the Listing Rules and other relevant laws and regulations, normative documents and the Articles of Association.

The Company will deposit the proceeds received in the designated fund-raising account according to the Measures for the Management of Raised Funds, and have the use of proceeds jointly supervised by the sponsor, the supervision bank, and the Company according to the relevant provisions of the fund raising regulatory system of the Company. The sponsor shall regularly inspect the use of the proceeds, and the Company shall also conduct internal audit of the proceeds on a regular basis, and cooperate with the supervision bank and the sponsor to inspect and supervise the use of the proceeds. The Company will strictly manage the proceeds received according to the relevant laws and regulations and the Measures for the Management of Raised Funds, so as to ensure the effective use of the proceeds in accordance with the planned purposes, accelerate the construction of the funded projects, actively improve the use efficiency of the proceeds, and strive to improve shareholder returns.

(II) To strengthen the principal business, and improve the Company's sustained profitability

As a global leading open capacity and technology platform, the Company provided services for more than 3,900 customers (active customers) from over 30 countries worldwide through the 29 R&D bases and branches worldwide. As a full industry chain platform, it provided the research and development, production and supporting services of various new drugs to the global pharmaceutical enterprises, and carried out some medical device testing and precision medical research and development and production services. This fund-raising investment project is designed to upgrade production capacity and technology based on the existing main business. We will improve the production capacity, improve the research and development conditions, and enhance the technology development strength by upgrading the research and development equipment, working environment, production workshops and supporting facilities, so as to provide a better innovation platform for the R&D and production of the customers. Through capacity expansion, R&D service capability improving and upgrading and further financial strength enhancement, we will deepen the "integrated, end-to-end" new drug R&D and production service system to meet the ever-expanding and diversified global customer demand, increase the stickiness of the customers, and strengthen the service capacity of the whole industrial chain, expand the scope of services, enhance ability of business services, improve the operating revenue and the market share, so as to realize the continuous improvement of business result.

(III) To constantly improve corporate governance and provide institutional guarantee for the development of the Company

The Company will strictly comply with the requirements of the Company Law, the Securities Law, the Listed Company Governance Standards and other relevant laws, regulations and normative documents, continuously improve the corporate governance structure, and ensure that shareholders can fully exercise their rights, that the board of directors can exercise its functions and powers in accordance with the provisions of laws, regulations and Articles of Association, make scientific, prompt and prudent decisions, and that independent directors can earnestly perform their duties. We will safeguard the overall interests of the Company, especially the legitimate rights and interests of minority shareholders, and ensure that the board of supervisors can independently and effectively exercise the right to supervise and inspect the directors and senior managers and the

Company's financial affairs, so as to provide institutional guarantee for the development of the Company.

(IV) To further optimize the profit distribution policy and ensure the return to the shareholders

In order to further improve the profit distribution policy and provide shareholders with a sustained, stable and reasonable return on investment, the Company has formulated the Shareholder Return Plan for the Next 3 Years (2020 to 2022) according to the relevant provisions of the Company Law, the Securities Law, the Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies, the Listed Company Regulation Guideline No.3 - Cash Dividend of Listed Companies and other relevant regulations after taking into full account of the actual situations of the Company. In the future, the Company will implement the profit distribution policy in a scientific and standardized manner in accordance with the provisions of the Articles of Association and the Shareholder Return Plan for the Next 3 Years, taking into account the reasonable investment returns of investors and the long-term and sustainable development of the Company, in order to maintain the continuity and stability of the profit distribution policy and create long-term value for shareholders.

VI. Safeguard measures for the planned use of the proceeds

To standardize the management of raised funds and improve the utilization efficiency of the raised funds, the Company has formulated and continuously improved the Measures for the Management of Raised Funds in accordance with the Company Law, the Securities Law, the Listing Rules, the Regulatory Guidelines for Listed Companies No.2 - Regulatory Requirements for the Management and Use of Funds Raised by Listed Companies (Announcement of the CSRC [2012] No.44), and other relevant laws, regulations and normative documents and the Articles of Association, in order to provide clear instructions on the special account storage, use, purpose change, management and supervision of raised funds.

When the proceeds from this offering is available, to ensure the standardized and effective use of the proceeds, the Company will, based on the Measures for the Management of Raised Funds, deposit the proceeds in a special account, ensure that the proceeds is used for designated investment projects, conduct internal audit of the proceeds on a regular basis, and cooperate with the sponsor to inspect and supervise the use of the proceeds, so as to reasonably prevent risks in relation to the use of proceeds.

VII. Commitments of the relevant parties on taking mitigation and remediation measures for the immediate return dilution resulting from this private placement of A-shares

(I) Commitments of the actual controller

According to the relevant requirements of the Several Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market issued by the State Council (Guo Fa [2014] No.17), the Opinion of General Office of the State Council on Further Enhancing Protection of Rights and Interests of Medium and Small Investors in Capital Market (Guo Ban Fa [2013] No.110) and the Instructions on Issues Related to Immediate Return Dilution Arising from IPO, Refinancing and Major Asset Restructuring (the CSRC Announcement [2015] No.31), the actual controller of the Company hereby makes the following commitments:

“1. During the period when I serve as the actual controller of the Company, I will not interfere in the company's operation and management activities beyond my authority, and I will not encroach on the Company's interests;

2. I promise to fulfill this commitment in good faith, and I am willing to bear the legal liabilities arising from the breach of the aforementioned commitment.”

(II) Commitments of directors and senior management

According to the relevant requirements of the Several Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market issued by the State Council (Guo Fa [2014] No.17), the Opinion of General Office of the State Council on Further Enhancing Protection of Rights and Interests of Medium and Small Investors in

Capital Market (Guo Ban Fa [2013] No.110) and the Instructions on Issues Related to Immediate Return Dilution Arising from IPO, Refinancing and Major Asset Restructuring (the CSRC Announcement [2015] No.31), the directors and senior management of the Company will faithfully and diligently perform their duties and safeguard the legitimate rights and interests of the Company and all the shareholders. In order to implement the spirit of the above regulations and documents, all directors and senior management hereby make the following commitments that during his/her tenure as a director or senior management of the Company:

"1. I hereby undertake that I shall not provide benefits to other entities or individuals without consideration or on unfair terms nor conduct in any other way that may impair the interest of the Company;

2. I hereby undertake that I shall incur expenses in performing my duties subject to restrictions;

3. I hereby undertake that I shall not apply the assets of the Company for any investment or expenditure which is unrelated to the performance of my duties;

4. I hereby undertake that the remuneration package formulated by the Board or the Remuneration Committee shall be implemented in accordance with the mitigation and reimbursement measures of the Company;

5. For any subsequent Share Incentive Plan of the Company, I hereby undertake that the vesting terms to be announced shall be operated in line with the mitigation and reimbursement system of the Company;

6. "I promise to fulfill this commitment in good faith, and I am willing to bear the legal liabilities arising from the breach of the aforementioned commitment."