
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in YiChang HEC ChangJiang Pharmaceutical Co., Ltd., you should at once pass this circular with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司

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

(Stock Code: 01558)

DISCLOSEABLE AND CONNECTED TRANSACTIONS AMENDMENTS TO THE NON-COMPETITION AGREEMENT

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



Gram Capital Limited
嘉林資本有限公司

A letter from the Board is set out on pages 4 to 27 of this circular. A letter from Gram Capital containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 50 of this circular and a letter from the Independent Board Committee is set out on page 28 of this circular.

A notice convening the EGM to be held at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC at 10:00 a.m. on Friday, 25 June 2021, together with the form of proxy for use at the EGM were despatched to the Shareholders on 28 May 2021. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://cj.hec.cn>).

Whether or not you would attend the aforementioned meeting, please fill in the form of proxy according to relevant instructions and return it as soon as possible, and not less than 24 hours before the fixed time of holding such meeting (i.e. before 10:00 a.m. on Thursday, 24 June 2021) or any adjournment thereof. The completion and return of the form of proxy will not preclude you from attending and voting in person at the aforementioned meeting or any adjournment thereof if you so desire.

28 May 2021

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DEFINITIONS

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

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| “2015 Non-Competition Agreement” | a non-competition agreement entered into between the Company and the then controlling shareholders of the Company in December 2015 |
| “2021 Non-Competition Agreement” | the non-competition agreement entered into by and among the Company and HEC Pharm Co., Ltd.* (宜昌東陽光藥業股份有限公司), Yichang HEC Pharmaceutical Co., Ltd.* (宜昌東陽光健康藥業有限公司), Dongguan HEC Industrial Development Co., Ltd.* (東莞市東陽光實業發展有限公司), Shenzhen HEC Industrial Development Co., Ltd.* (深圳市東陽光實業發展有限公司), Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd.* (乳源瑤族自治縣寓能電子實業有限公司), Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd.* (乳源瑤族自治縣新京科技發展有限公司), Ms. Guo Meilan (郭梅蘭) and Mr. Zhang Yushuai (張寓帥) on 19 March 2021 |
| “Announcement” | the announcement dated 19 March 2021 made by the Company in relation to the transactions under the Revised Non-Competition Agreements |
| “Articles of Association” | the articles of association of the Company (as amended from time to time) |
| “Board” | the board of Directors of the Company |
| “Company” | YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (宜昌東陽光長江藥業股份有限公司), a company established in the PRC on 11 May 2015 as a joint stock company with limited liability |
| “Controlling Shareholder(s)” | has the meaning ascribed to it under the Listing Rules, which refers to the Parent Company, Shenzhen HEC Industrial Development Co., Ltd.* (深圳市東陽光實業發展有限公司), Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd.* (乳源瑤族自治縣寓能電子實業有限公司), Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd.* (乳源瑤族自治縣新京科技發展有限公司), Ms. Guo Meilan (郭梅蘭) and Mr. Zhang Yushuai (張寓帥) |
| “De Facto Controller(s)” | Ms. Guo Meilan (郭梅蘭) and Mr. Zhang Yushuai (張寓帥) |
| “Director(s)” | the director(s) of the Company |

DEFINITIONS

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| “EGM” | the 2021 first extraordinary general meeting of the Company to be held at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang’an County, Dongguan, Guangdong Province, the PRC at 10:00 a.m. on Friday, 25 June 2021 |
| “EGM Notice” | the notice of the EGM dated 28 May 2021 convening the EGM |
| “Gift Agreement on Equity Interests” | the gift agreement on equity interests entered into between the Company (as the grantee) and Shenzhen HEC Industrial Development Co., Ltd.* (深圳市東陽光實業發展有限公司) (as the grantor) on 19 March 2021 |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | the independent board committee established by the Company (comprising Mr. TANG Jianxin, Mr. ZHAO Dayao, Ms. XIANG Ling and Mr. LI Xuechen, all being independent non-executive Directors) to advise the Independent Shareholders in connection with transactions under the Revised Non-Competition Agreements |
| “Independent Financial Adviser” or “Gram Capital” | Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions under the Revised Non-Competition Agreements |
| “Independent Shareholders” | Shareholders other than the Parent Company, and who are not involved in, or interested in transactions under the Revised Non-Competition Agreements |
| “INED(s)” | the independent non-executive Director(s) of the Company |
| “Latest Practicable Date” | 21 May 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “New Non-Competition Agreements” | the 2021 Non-Competition Agreement and the Sunshine Lake Pharma Non-Competition Agreement |

DEFINITIONS

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| “Ordinary Resolution” | the proposed ordinary resolution as referred to in the EGM Notice |
| “Parent Company” | Guangdong HEC Technology Holding Co., Ltd.* (廣東東陽光科技控股股份有限公司), a company incorporated in the PRC with limited liability and the immediate Controlling Shareholder of the Company holding approximately 53.89% equity interest in the Company as at the date of this circular |
| “PRC” or “China” | the People’s Republic of China and for the purpose of this circular, excluding the Hong Kong Special Administrative Region of the People’s Republic of China, the Macao Special Administrative Region of the People’s Republic of China and Taiwan |
| “Revised Non-Competition Agreements” | the 2021 Non-Competition Agreement, the Sunshine Lake Pharma Non-Competition Agreement and the Gift Agreement on Equity Interests |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Shareholder(s)” | holder(s) of the shares in the share capital of the Company, with a nominal value of RMB1.00 each |
| “Shares” | issued shares of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Sunshine Lake Pharma” | Sunshine Lake Pharma Co., Ltd.* (廣東東陽光藥業有限公司), a company incorporated in the PRC with limited liability |
| “Sunshine Lake Pharma Non-Competition Agreement” | the non-competition agreement entered into between the Company and Sunshine Lake Pharma on 19 March 2021 |
| “%” | per cent |

In this circular, unless the context requires otherwise, the terms “associate(s)”, “connected person(s)”, “connected transaction(s)” and “subsidiary (ies)” shall have the meanings ascribed to them under the Listing Rules (as modified by the Stock Exchange from time to time).

** The English translation or transliteration of the Chinese name(s) in this circular, where indicated, is included for information purposes only, and should not be regarded as the official English name(s) of such Chinese name(s).*

LETTER FROM THE BOARD



YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司

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

(Stock Code: 01558)

The Board of Directors:

Executive Directors:

Mr. JIANG Juncai
Mr. WANG Danjin
Mr. CHEN Yanguai
Mr. LI Shuang

Non-executive Directors:

Mr. TANG Xinfu (*Chairman*)
Mr. Eddy HUANG

Independent Non-executive Directors:

Mr. TANG Jianxin
Mr. ZHAO Dayao
Ms. XIANG Ling
Mr. LI Xuechen

**Registered Office and Principal Place of
Business in the PRC:**

No. 38 Binjiang Road
Yidu, Yichang
Hubei Province
the PRC

Principal Place of Business in Hong Kong:

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

28 May 2021

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
AMENDMENTS TO THE NON-COMPETITION AGREEMENT**

1. INTRODUCTION

Reference is made to the Announcement in relation to the transactions under the Revised Non-Competition Agreements. The purpose of this circular is to provide you with information necessary to enable you to make an informed decision on whether to vote for or against the ordinary resolution to be proposed at the EGM relating to the transactions under the Revised Non-Competition Agreements.

LETTER FROM THE BOARD

2. AMENDMENTS TO THE NON-COMPETITION AGREEMENT

1 2021 Non-Competition Agreement

Date: 19 March 2021

Parties:

- the Company
- HEC Pharm Co., Ltd.* (宜昌東陽光藥業股份有限公司), a controlled subsidiary of the Controlling Shareholder of the Company and therefore a connected person of the Company
- Yichang HEC Pharmaceutical Co., Ltd.* (宜昌東陽光健康藥業有限公司) (formerly known as Linzhi HEC Pharmaceutical Investment Co., Ltd.* (林芝東陽光藥業投資有限公司)), a wholly-owned subsidiary of the Controlling Shareholder of the Company and therefore a connected person of the Company
- Dongguan HEC Industrial Development Co., Ltd.* (東莞市東陽光實業發展有限公司), a wholly-owned subsidiary of the Controlling Shareholder of the Company and therefore a connected person of the Company
- Shenzhen HEC Industrial Development Co., Ltd.* (深圳市東陽光實業發展有限公司), the Controlling Shareholder of the Company and therefore a connected person of the Company
- Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd.* (乳源瑤族自治縣寓能電子實業有限公司), the Controlling Shareholder of the Company and therefore a connected person of the Company
- Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd.* (乳源瑤族自治縣新京科技發展有限公司), the Controlling Shareholder of the Company and therefore a connected person of the Company
- Ms. Guo Meilan (郭梅蘭), the Controlling Shareholder and the De Facto Controller of the Company and therefore a connected person of the Company
- Mr. Zhang Yushuai (張寓帥)^(Note 1), the Controlling Shareholder and the De Facto Controller of the Company and therefore a connected person of the Company

Note 1: The original signatory of the 2015 Non-Competition Agreement is Mr. Zhang Zhongneng (張中能). After the death of Mr. Zhang Zhongneng, his interest is succeeded by his son, Mr. Zhang Yushuai. Except for Mr. Zhang Yushuai, the signatories to the 2021 Non-Competition Agreement are the same as the signatories to the 2015 Non-Competition Agreement.

LETTER FROM THE BOARD

Principal Amendments:

In view of a more specific arrangement made between the Company and Sunshine Lake Pharma in relation to the business cooperation and the entering into of a new non-competition agreement between the Company and Sunshine Lake Pharma, the 2021 Non-Competition Agreement only excluded the contents involving Sunshine Lake Pharma (as a controlled subsidiary of the Controlling Shareholder). Other terms of the 2021 Non-Competition Agreement are the same as the terms of the 2015 Non-Competition Agreement.

2 Sunshine Lake Pharma Non-Competition Agreement

Date: 19 March 2021

Parties:

- the Company
- Sunshine Lake Pharma, a controlled subsidiary of the Controlling Shareholder of the Company and therefore a connected person of the Company

Subject Matters:

Scope of Non-Competition and Commitments

The Company is mainly engaged in the development, production and sales of pharmaceutical products in mainland China. Sunshine Lake Pharma is mainly engaged in the development, production and sales of pharmaceutical products outside mainland China. Both companies differ from each other in terms of operating regions and business models, which are reflected in the following aspects:

- (1) Drug development: the Company is mainly engaged in the research and development of consistency evaluation of existing small molecule generic drugs, clinical development of existing insulin products, and subsequent clinical development of the more mature pharmaceutical products in research acquired through external introduction (independent third parties and Sunshine Lake Pharma), while Sunshine Lake Pharma is engaged in the pre-clinical research and development and clinical development of new small molecule and large molecule drugs, as well as the development of small molecule generic drugs and biosimilar drugs.
- (2) Pharmaceuticals manufacturing: the Company is mainly engaged in the production of pharmaceutical products for domestic market, and related manufacturing plants comply with domestic GMP and other related qualification requirements, and the Company does not hold qualifications for overseas pharmaceutical production and other businesses. As Sunshine Lake Pharma is mainly engaged in the overseas sales of pharmaceutical preparations, its manufacturing plants not only meet the requirements of

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domestic GMP qualifications, but also satisfy the GMP certification in the European Union and the United States, etc. Meanwhile, Sunshine Lake Pharma is mainly engaged in the manufacturing of relevant pharmaceutical products for its overseas sales, as well as the OEM manufacturing for the Company due to current regulations and other reasons, which is different from the Company's manufacturing of pharmaceutical products in purposes. Therefore, the Company is different from Sunshine Lake Pharma in terms of the qualification of the pharmaceuticals manufacturing and the purpose of manufacturing.

- (3) In terms of sales of pharmaceutical products: sales of pharmaceutical preparation products usually refers to that pharmaceutical production enterprises produce relevant pharmaceutical preparation products through their own production plants or entrusted production after obtaining approval of relevant pharmaceutical products, and then distribute such pharmaceutical preparation products to terminal medical institutions (including hospitals at different grades, pharmacies, etc.) through pharmaceutical circulation enterprises, and finally such pharmaceutical preparation products are sold by terminal medical institutions to the patients, during which pharmaceutical enterprises will carry out relevant marketing activities (such as academic promotion, bidding, etc.) for relevant products through their own sales team. For the above pharmaceutical preparation sales business, pharmaceutical enterprises bear the risks and obligations of production, distribution and marketing, and also entitle to the final benefits of related products after deducting relevant costs such as distribution costs, administrative expenses, etc. In the past, the Company only sold pharmaceutical preparation products in China, and did not sell pharmaceutical preparation products abroad, nor did it hold relevant overseas qualifications or approval certificates. Sunshine Lake Pharma only sells pharmaceutical preparation products outside China and holds overseas approvals for pharmaceutical preparation products.

Based on the above definition of sales of pharmaceutical preparation product and the actual business operations, the Company and Sunshine Lake Pharma carry out sales business of pharmaceutical preparation products in China and outside China respectively. There are obvious differences in the regions where both companies carry out sales business of pharmaceutical preparation products. Moreover, as the sales of pharmaceutical preparation products is required to meet the relevant policies and regulations of the countries and regions where relevant sales conducted, it is easy to distinguish between each other in actual operations.

So far, Sunshine Lake Pharma has not carried out the sales of pharmaceutical preparation products in China for its product candidates. Some of its products were previously sold to the Company as a whole only through the transfer or exclusive licensing of related product patents and

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the transfer of drug approvals. It has not directly engaged in the sales of preparation products in China. Therefore, there is no substantial competition between Sunshine Lake Pharma and the Company.

- (4) In respect of product types, brands and patents: the pharmaceutical products of Sunshine Lake Pharma are all in progress (excluding the products previously transferred to the Company). Its products in progress are mainly target at anti-infection, anti-tumor and endocrine diseases. At present, the Company has been granted drug approvals for most of its pharmaceutical products, and has owned some drug pipelines, including 33 generical drugs, anti-hepatitis C product series, Rongliflozin 1-pyroglutamic acid and Liraglutide acquired from Sunshine Lake Pharma. The therapeutic areas of the Company's main products on sale focus on anti-infection, endocrine diseases and cardiovascular diseases.

The Company has already acquired relevant products from Sunshine Lake Pharma through former acquisitions. Till now, there is no overlap between the products on sale and pipeline products of the Company and those of Sunshine Lake Pharma.

The Company owns the trademarks of its products on sale, except for some trademarks which need to be authorized due to the Company's entrusting Sunshine Lake Pharma to produce related products; the other core products do not share common trademarks. The Company does not share or overlap with Sunshine Lake Pharma in terms of patents.

The scope of non-competition is the principal business of each of the parties as of the date of entering into this agreement.

The Company and Sunshine Lake Pharma undertake and procure their respective subsidiaries:

- (1) not to directly or indirectly engage in or participate in, or assist or support any third party to engage in or participate in, either alone or with others, any business which competes or may compete, directly or indirectly, with the principal business of the counterparty and its subsidiaries in any form.
- (2) during the validity period of the Sunshine Lake Pharma Non-Competition Agreement, if each of the parties becomes aware of any relevant new business opportunity that competes or may compete, directly or indirectly, with the principal business of the counterparty, it shall give priority to offer such opportunity to the counterparty. If the counterparty decides not to accept the relevant new business opportunity for any reason, each of the parties may operate such new business opportunity itself.

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Validity Period

The Sunshine Lake Pharma Non-Competition Agreement shall take effect after its execution and approval by the both parties' respective internal approval authorities.

The Sunshine Lake Pharma Non-Competition Agreement will remain in full force and effect until the earlier of (i) both the parties' ceasing to be controlled by the same de facto controller; or (ii) both parties no long being listed on the Stock Exchange or other internationally recognised stock exchanges.

Cooperation in Sales of Pharmaceutical Products within the PRC

Since Sunshine Lake Pharma is principally engaged in businesses such as the development and production of pharmaceutical products as well as the sales of pharmaceutical products outside the PRC, it has obtained, applied for or intended to apply for (1) national pharmaceutical approval numbers for its pharmaceutical products listed overseas; and (2) new national pharmaceutical approval numbers (the aforesaid domestic pharmaceutical products under the national pharmaceutical approval numbers are collectively referred to as the “**Domestic Cooperative Products**”). In order to avoid competition with the Company and maximize the protection of the respective interests of both parties, they agreed to cooperate in the development of the Domestic Cooperative Products as follows:

- (1) Sunshine Lake Pharma shall be responsible for all research and development activities, submission of regulatory approval documents, completion of clinical trials, obtaining of pharmaceutical approval numbers and other cooperative arrangements for the Domestic Cooperative Products; Sunshine Lake Pharma shall have the right to choose to retain the relevant intellectual property rights, proprietary technologies, clinical trial approvals and pharmaceutical approval numbers for the domestic pharmaceutical products, and determine fair terms for the cooperation and transaction of the Domestic Cooperative Products through various market-based mechanisms (including in the form of negotiations with the Company, etc.) for commercialization (but the Company shall have the right not to accept such cooperation opportunities); if the Company determines to accept the cooperation opportunities, the Company may be given priority to obtain opportunities for the promotion and commercialization of the Domestic Cooperative Products within the PRC at nil consideration and cooperate and carry out transactions through the income sharing model.
- (2) The Company shall make a decision to accept the cooperation or not after receipt of the cooperation notice from Sunshine Lake Pharma. If the Company agrees to accept such domestic cooperation opportunity, it shall be responsible for all expenses in respect of promotion and commercialization of the Domestic Cooperative Products within the PRC; if the Company chooses not to accept the right to promote and

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commercialize one or more of the Domestic Cooperative Products within the PRC provided by Sunshine Lake Pharma (the “**Refused Products**”), it shall notify Sunshine Lake Pharma within a reasonable period after receipt of the cooperation notice, which shall be deemed as not accepted by the Company when expired. Sunshine Lake Pharma may cooperate with third parties with the Refused Products at terms (including but not limited to consideration for license, sharing ratio and term) no more favorable than those offered to the Company.

- (3) The income distribution between Sunshine Lake Pharma and the Company in respect of the Domestic Cooperative Products shall be determined by mutual agreement between the parties based on the specific conditions of the products. The income distribution is mainly based on a sales income sharing model. The sales income sharing ratio and term between the parties are with reference to the industry practices, and the sharing period is determined to be the later of 10 years after the commercialization of the specific projects or the expiration date of the core patents of the projects; the sales income sharing ratio is proposed to be based on factors such as the stage of the specific products, the market size of the products and the potential market share, and the sharing ratio of the specific products is determined at a ratio no higher than that of comparable cases in the market in accordance with the respective internal review procedures performed by the parties prior to the launch and sales of the products on a case-by-case basis. Sunshine Lake Pharma has not been engaged in any business within the PRC by means of sales of pharmaceutical products within the PRC. The expected scale or size of Sunshine Lake Pharma’s business within the PRC depends on the detailed terms and conditions (including but not limited to consideration for license, sharing ratio and term) to be negotiated with the Company or any independent third party through cooperation on a specific product under research.
- (4) Subject to the confirmation and agreement of Sunshine Lake Pharma and the Company on the cooperation in sales of the domestic pharmaceutical products in the manner set out in this agreement, Sunshine Lake Pharma will not carry out the sales promotion and commercialization activities of the pharmaceutical products within the PRC, through cooperation with the Company or cooperation with any independent third party with terms (including but not limited to consideration for license, sharing ratio and term) no more favorable than those offered to the Company. Therefore, it will not constitute competition given a clear business scope of the parties.
- (5) The Company has the priority to opt to obtain the opportunity to promote and commercialize its Domestic Cooperative Products within the PRC for nil consideration and conduct cooperation and transactions through the revenue-sharing model (or a fair agreement negotiated between both parties). In this case, both parties conducted business cooperation rather than inter-industry competition, and Sunshine Lake Pharma did not

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independently conduct inter-industry competition business with the Company in PRC. If the Company rejects to accept the cooperation, Sunshine Lake Pharma may only commercialize its domestic interest in the relevant products on terms no more favourable than those offered to the Company (including but not limited to the licensed consideration, percentage of share, and number of years).

According to the non-competition agreement entered into between the Company and Sunshine Lake Pharma, the Company has the right of priority to commercialize the relevant products of Sunshine Lake Pharma at nil consideration plus revenue-sharing model. If the Company gives up the right to commercialize the relevant products in the PRC, Sunshine Lake Pharma may cooperate with an independent third party for domestic commercialization of the relevant products on terms no more favorable than those offered to the Company.

In specifically evaluating whether it will choose to exercise the right of priority to commercialize the relevant products, the Company will give due consideration to the followings: (i) the indications targeted by the Company's existing product pipeline; (ii) the size of the Company's existing sales team; (iii) the reasonable income expected to be received in the future and the costs and expenses incurred in relation thereto after the Company chooses to commercialize the product; (iv) whether the relevant products have synergy effect with the Company's product pipeline; and (v) other relevant factors that may require comprehensive consideration by the Company and are important for evaluating whether choosing to commercialize the relevant products is beneficial for enhancing the Company's sustainable operation and profitability.

If the relevant products may compete with the Company's products, that means such products and the Company's existing products are in the same indication field, or the relevant products and the Company's existing products target the same group of patients. In considering whether to commercialize such products, apart from the above factors, the Company will also consider the followings: (i) the impact on the sales of the Company's existing products after the subsequent commercialization of the relevant products; and (ii) the impact on the Company's existing products after the cooperation between Sunshine Lake Pharma and an external third party if the Company chooses not to commercialize the relevant products.

Based on the above, if the Company chooses to give up the right to commercialize the relevant products, it is the judgment and reasonable choice made after fully considering the comprehensive factors such as the therapeutic areas of the Company's existing products, future development strategy, revenue and cost, and the impact of the relevant products on the Company's existing pipeline products. Therefore, after the Company chooses to give up the relevant products, it is expected that there will be no material adverse impact on the Company's going concern and profitability. Sunshine Lake Pharma itself should not compete with the Company due to the above commercialization cooperation with the third party.

LETTER FROM THE BOARD

Clear Delineation of business under the 2021 New Competition Agreement and Sunshine Lake Pharma Non-Competition Agreement

The scope of avoiding competition in the Sunshine Lake Pharma Non-Competition Agreement between the Company and Sunshine Lake Pharma is, as of the signing date of the Sunshine Lake Pharma Non-Competition Agreement, the primary business of the Company and Sunshine Lake Pharma (including their respective subsidiaries).

Both parties differentiate their business mainly by the difference in the final sales regions of pharmaceutical products (i.e. within the PRC and outside the PRC). The Company has not engaged in any sales of pharmaceutical preparation products outside the PRC, and Sunshine Lake Pharma has not directly engaged in the sales of pharmaceutical preparation products within the PRC. Meanwhile, because of the different manufacturing and operation qualifications, jurisdictions, regulatory laws and regulations required for engagement in pharmaceutical preparations within and outside the PRC, the mutual circulation between domestic and foreign pharmaceutical preparation products often needs to go through strict procedures such as retesting, certification, regulatory approval, etc., and it is easier to identify and distinguish the above businesses in actual operations.

Meanwhile, both parties undertake to comply with their relevant obligations for avoiding competition under the agreement. If any new business opportunities that constitute or may constitute direct or indirect competition with the other party's primary business arise, each Party will give priority to the other party. Only when the other party informs in writing within a reasonable period of time that it will not accept the relevant new business opportunities, can one Party operate the relevant new business opportunities on its own.

In view of the above, the primary businesses of the Company and Sunshine Lake Pharma are clear at present, and there has been no competition between the parties up to now. In the future, the parties will follow the agreement on avoiding competition and make relevant arrangements for new business opportunities that may lead to competition to address such competition. The Board believes that the Company and Sunshine Lake Pharma have clearly defined their respective businesses and made future arrangements based on the newly signed agreement on avoiding competition.

Meanwhile, given that the Company has signed the Sunshine Lake Pharma Non-Competition Agreement with Sunshine Lake Pharma, the 2015 Non-Competition Agreement shall no longer be applicable to Sunshine Lake Pharma, but the contents and terms set out in the 2015 Non-Competition Agreement shall still be applicable to the controlling shareholders and the unlisted entities under its control (other than Sunshine Lake Pharma and the Company).

The existing businesses of the Controlling Shareholders and their subsidiaries (other than Sunshine Lake Pharma and the Company) are the production and sales of bulk drugs and the sales of preparation products outside the PRC, and they have not

LETTER FROM THE BOARD

engaged in any competitive business related to the Company's primary business in any form. The existing business of the Controlling Shareholders faces different customer groups, production and operation qualifications, and regulatory laws and regulations, and it is easier to differentiate and distinguish between their existing business and the Company's primary business in actual operations.

In addition, according to the 2015 Non-Competition Agreement, the Company is entitled to acquire and integrate the competitive businesses that may come to the Controlling Shareholders and their subsidiaries (except Sunshine Lake Pharma and the Company) in the future through the relevant rights such as option rights for new business opportunity, option rights for acquisition and pre-emptive rights, so as to solve any potential competition that may arise.

Therefore, the Board believes that based on the 2015 Non-Competition Agreement and the 2021 Non-Competition Agreement on avoiding competition, the Company and its Controlling Shareholders (including Sunshine Lake Pharma and other affiliates) have clearly defined their respective businesses and made future arrangements, and there is no competition between the parties; and clear arrangements have been made to avoid competition.

Sunshine Lake Pharma has approximately 47 new drugs under research, including approximately 40 small molecule innovative drugs, approximately 13 biological drugs under research, approximately 71 generic drugs and products. According to the Sunshine Lake Pharma Non-Competition Agreement, the Company is given priority to obtain opportunities for the promotion and commercialization of the Domestic Cooperative Products within the PRC at nil consideration and cooperate and carry out transactions through the income sharing model. It is expected that commercialization of the products would diversify products of the Company, strengthen the Company's core competitiveness and improve the operating capacity of the Company in the future.

The Company has never conducted any sales of pharmaceutical products business outside the PRC so far. Conducting overseas sales of pharmaceutical products business requires to establish overseas sales networks for pharmaceutical products from scratch as well as construct corresponding production systems and R&D systems as required by overseas pharmaceutical regulations, which all demand huge investment in early stage and have great uncertainties. In addition, the Company has been only conducting sales of pharmaceutical products business within the PRC since listing, and considering the current business development stage, commencing overseas business may undermine the business stability and capability of on-going operation of the Company.

According to the Sunshine Lake Pharma Non-Competition Agreement entered into by the Company and Sunshine Lake Pharma, both parties will not compete with each other for their respective dominant business field. Sunshine Lake Pharma mainly engages in the development and production of pharmaceutical products and sales outside the PRC, therefore, the Company shall not carry out overseas

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pharmaceutical business upon the Sunshine Lake Pharma Non-Competition Agreement becoming effect. The Company will cooperate with Sunshine Lake Pharma regarding to the domestic rights and interest of products under research and development in the future. Pursuant to the Sunshine Lake Pharma Non-Competition Agreement, the Company has the priority for cooperation based on nil consideration plus share of sales revenue, which is of great significance to enhance the profitability of the Company's main business and is in line with the Company's development strategy and business positioning.

The commercialization of the pharmaceutical preparation products through transfer of approvals or exclusive licensing is different in nature with the sales business of pharmaceutical preparation products directly conducted by the pharmaceutical companies. Specifically, the two are varied in:

1. different customer bases: the customer bases suitable for the model of product transfer and exclusive licensing are mainly other pharmaceutical companies, while the customer bases targeted by the sales of pharmaceutical preparation products are terminal healthcare institutions and patients. Therefore, the customer bases of the two are different in nature;
2. different risks and obligations assumed and gains entitled. Generally speaking, as for product transfer, after the transfer, the transferor ceases to assume risks arising from subsequent marketing and promotion, R&D and product quality, and it also needs not to pay expenses associated with subsequent marketing and promotion. As for gains entitled, gains from product transfer to external parties and exclusive licensing are mainly milestone payments and a certain percentage of subsequent licensing fees linked to product sales, while gains entitled for sales of pharmaceutical preparation products are the remaining profits calculated by selling prices of products minus relevant costs and fees (including period fees such as costs, taxes, and sales costs). Therefore, from the perspective of gains entitled, the two are also different in nature.

Sunshine Lake Pharma previously transferred relevant products in progress to the Company only through transfer the relevant patents and drug approvals, while it intends to cooperate with independent third parties in respect of transfer or exclusive licensing of relevant products, subject to the waiver of pre-emptive rights or cooperation by the Company. The transfer or exclusive licensing of relevant products by Sunshine Lake Pharma is different in nature with the sales business of pharmaceutical preparation products as the two businesses are distinctly different from each other in subsequent obligations assumed and gains acquired. Therefore, in respect of the principal businesses of the Company and that till now, Sunshine Lake Pharma has never conducted any sales business in relation to pharmaceutical preparation products in Mainland China, Sunshine Lake Pharma has not violated relevant agreements in the Non-Competition Agreement.

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However, in the Sunshine Lake Pharma Non-competition Agreement between the Company and Sunshine Lake Pharma, it is further clarified that under the domestic business cooperation model, the Company may in the future prioritize using the model of nil consideration plus sales revenue-sharing to acquire promotion and commercialization opportunities in relation to relevant domestic preparations products of Sunshine Lake Pharma. Under the model, Sunshine Lake Pharma will not be engaged in the sales business of domestic pharmaceutical preparations and can only commercialize the domestic interests of relevant products with terms not more favorable than those available to the Company (including but not limited to licensing consideration, sharing percentage and terms) after the Company opts out relevant cooperation opportunities. When choosing whether to accept the new business opportunity or commercialization rights of related products, the Company will assess base on the synergy of related products and the sales product pipeline, the existing sales network, the business focus on treatment areas, the competitive landscape of related products, and the cost structure of the Company thoroughly. If the Company chooses to give up its rights after the above assessment, it still needs to be reviewed and approved by the independent non-executive Directors before Sunshine Lake Pharma can cooperate with independent third parties.

The Board is of the view that if Company chooses to give up new business opportunity or priority commercialization rights of related products, which is made after comprehensive consideration of the Company's sales product pipeline, the existing sales network, the business focus on treatment areas, cost-benefit and other comprehensive conditions, it indicates that the cooperation between Sunshine Lake Pharma and an independent third party on new business opportunity or priority commercialization rights of related products will have less adverse impact on the interests of small and medium shareholders as compared to the acceptance of the new business opportunity or priority commercialization rights of related products.

On the part of the Company, the future cooperation in the commercialization of the domestic interests of Sunshine Lake Pharma's pipeline products between the Company and Sunshine Lake Pharma is also beneficial for the Company to acquire new pharmaceutical products, therefore optimizing and improving its product pipelines and revenue structure, and further reinforcing its abilities in operating as a going concern and competitiveness.

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Set out below summarised the arrangement for not accepting the new business opportunity or priority commercialization rights of related products under the 2021 Non-Competition Agreement, the Sunshine Lake Pharma Non-Competition Agreement and the 2015 Non-Competition Agreement:

| The 2015 Non-Competition Agreement | The 2021 Non-Competition Agreement | The Sunshine Lake Pharma Non-Competition Agreement |
|--|---|--|
| If the Company decides not to exercise the pre-emptive rights or if the Company does not reply to the Controlling Shareholders within the agreed time period, the Controlling Shareholders is entitled to transfer, sell, lease or license the business to a third party pursuant to the terms stipulated in the written notice, by which the Controlling Shareholders notify the Company. | Same as the 2015 Non-Competition Agreement. | <p>If the counterparty decides not to accept the relevant new business opportunity for any reason, each of the parties may operate such new business opportunity itself.</p> <p>In respect of the cooperation in sales of pharmaceutical products within the PRC, if the Company chooses not to accept the right to promote and commercialize one or more of the Domestic Cooperative Products within the PRC provided by Sunshine Lake Pharma, it shall notify Sunshine Lake Pharma within a reasonable period after receipt of the cooperation notice, which shall be deemed as not accepted by the Company when expired. Sunshine Lake Pharma may cooperate with third parties with the Refused Products at terms (including but not limited to consideration for license, sharing ratio and term) no more favorable than those offered to the Company.</p> |

The differences among the 2015 Non-Competition Agreement, the 2021 Non-Competition Agreement and the Sunshine Lake Pharma Non-Competition Agreement

| | 2015 Non-Competition Agreement | 2021 Non-Competition Agreement | Main difference |
|---------------------|---|---|---|
| Applicable entities | the 2015 Controlling Shareholders and their subsidiaries, excluding the listed subsidiary(ies) of the 2015 Controlling Shareholders | HEC Pharm Co., Ltd.* (宜昌東陽光藥業股份有限公司), Yichang HEC Pharmaceutical Co., Ltd.* (宜昌東陽光健康藥業有限公司), Dongguan HEC Industrial Development Co., Ltd.* (東莞市東陽光實業發展有限公司), Shenzhen HEC Industrial Development Co., Ltd.* (深圳市東陽光實業發展有限公司), Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd.* (乳源瑤族自治縣寓能電子實業有限公司), Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd.* (乳源瑤族自治縣新京科技發展有限公司), Ms. Guo Meilan (郭梅蘭) and Mr. Zhang Yushuai (張寓帥) and their subsidiaries, excluding the listed subsidiary(ies) of them and Sunshine Lake Pharma | The 2021 Non-Competition Agreement was no longer applicable to Sunshine Lake Pharma |

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Save as the above, there were no other material difference between the 2015 Non-Competition Agreement and the 2021 Non-Competition Agreement.

| | 2015 Non-Competition Agreement | Sunshine Lake Pharma Non-Competition Agreement | Main differences |
|-------------------------------|---|--|---|
| Scope of non-competition | The Company is mainly engaged in the development, production and sales of pharmaceutical products in mainland China. | <p>Sunshine Lake Pharma and/or its subsidiaries are mainly engaged in the development and production of pharmaceutical products as well as the sales of pharmaceutical products outside mainland China.</p> <p>The Company and/or its subsidiaries are mainly engaged in the development and production of pharmaceutical products as well as the sales of pharmaceutical products in mainland China.</p> | The scope of avoiding competition changed from the primary business of one party to the primary business of both parties. |
| Commitment to non-competition | <ol style="list-style-type: none"> 1. As of the date of entering into the 2015 Non-competition Agreement, the 2015 Controlling Shareholders and/or their subsidiaries did not engage in any competitive business in any form. 2. The 2015 Controlling Shareholders undertake not to, and procure their subsidiaries not to, directly or indirectly engage in or participate in, or assist or support any third party to engage in or participate in, either alone or with others, any business which competes or may compete, directly or indirectly, with the principal business of the Company and its subsidiaries in any form in mainland China during the validity period of the 2015 Non-Competition Agreement. | <ol style="list-style-type: none"> 1. As of the date of entering into the Sunshine Lake Pharma Non-competition Agreement, the Company (and/or its subsidiaries) and Sunshine Lake Pharma (and/or its subsidiaries) did not engage in any competitive business in any form. 2. The Company and Sunshine Lake Pharma undertake not to, and will procure their respective subsidiaries not to, directly or indirectly engage in or participate in, or assist or support any third party to engage in or participate in, either alone or with others, any business which competes or may compete, directly or indirectly, with the principal business of the Company and its subsidiaries in any form. | The commitment to non-competition changed from commitment of one party to mutual commitment of both parties. |

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| | 2015 Non-Competition Agreement | Sunshine Lake Pharma Non-Competition Agreement | Main differences |
|--|--|---|---|
| Relevant rights | <p>1. Option rights for new business opportunity</p> <p>During the validity period of the 2015 Non-Competition Agreement, if the 2015 Controlling Shareholders becomes aware of any relevant new business opportunity that competes or may compete, directly or indirectly, with the principal business of the Company, it shall give priority to offer such opportunity to the Company. The Company shall have the right to accept the above business opportunity in accordance with the 2015 Non-competition Agreement. If the Company decides not to accept the new business opportunity for any reason, it shall inform 2015 Controlling Shareholders. After receiving written confirmation from the Company or if the Company does not provide a written reply within a reasonable period of time, the 2015 Controlling Shareholder may operate such new business opportunity on its own.</p> <p>2. Option rights for acquisition</p> <p>During the validity period of the agreement, the 2015 Controlling Shareholders give the Company the option to acquire from the 2015 Controlling Shareholders any equity, assets and other interests in part or all of the existing businesses and/or the new business opportunity at any time on a one or more occasions at the price determined in accordance with the agreement, or at the option as permitted by applicable laws and regulations, including but not limited to entrusting, leasing or contracting to operate the such existing businesses and/or new business of the 2015 Controlling Shareholders.</p> <p>3. Pre-emptive rights</p> <p>During the validity period of the 2015 Non-competition Agreement, the Company shall have pre-emptive rights if the 2015 Controlling Shareholders intend to transfer, sell, lease, license or otherwise assign or permit to operate their existing business or their interest to a third party; and/or when the 2015 Controlling Shareholders obtain new business opportunities in accordance with the 2015 Non-competition Agreement.</p> | <p>During the validity period of the Sunshine Lake Pharma Non-Competition Agreement, if a party becomes aware of any relevant new business opportunity that competes or may compete, directly or indirectly, with the principal business of the counterparty, it shall give priority to offer such opportunity to the counterparty. The counterparty shall confirm the acceptance of such business opportunity in accordance with the agreement. If the counterparty decides not to accept the new business opportunity for any reason, it shall inform the other party. After receiving written confirmation from the counterparty or if the counterparty does not provide a written reply within a reasonable period of time, the other party may operate such new business opportunity on its own.</p> | <p>1. The scope of the relevant rights of Sunshine Lake Pharma was revised from option rights for new business opportunity, option rights for acquisition and pre-emptive rights to option rights for new business opportunity.</p> <p>2. The rights were changed from unilateral rights to mutual commitment rights.</p> |
| Cooperation in Sales of Pharmaceutical Products within the PRC | No | For details, please refer to the paragraph headed "Cooperation in Sales of Pharmaceutical Products within the PRC" in this circular. | The content was newly-added. |

Save for the above differences, there were no other material differences between the 2015 Non-Competition Agreement and the Sunshine Lake Pharma Non-Competition Agreement between the Company and Sunshine Lake Pharma.

3 Gift Agreement on Equity Interests

In order to further protect the interests of the Company, the Controlling Shareholder, intend to grant 10% of the equity of Sunshine Lake Pharma (the “**Subject Equity**”) to the Company through itself or a third party designated by it at nil consideration. Given that Sunshine Lake Pharma is introducing an external investor, the Subject Equity represents 10% equity interest in Sunshine Lake Pharma upon completion of this round of financing. The specific amount of registered capital corresponding to the Subject Equity shall be determined by the grantor and Sunshine Lake Pharma based on the actual capital introduction amount and its progress, and shall be determined and completed no later than 30 September 2021. If Sunshine Lake Pharma applies for Listing in the domestic and overseas securities markets, Controlling Shareholders shall guarantee that the proportion of equity interest of the Company in Sunshine Lake Pharma before the application for the Initial Listing shall not be less than 9%; otherwise Sunshine Lake Pharma shall further provide a supplementary gift to the Company until the Company holds 10% equity interest in it. After approval of the aforesaid amendments to the non-competition agreements and the revision of the relevant competition undertaking of the Parent Company, the said transfer shall become duly effective and the relevant taxes (if any) shall be borne by the parties thereto according to the law.

Date: 19 March 2021

Parties:

- Shenzhen HEC Industrial Development Co., Ltd.* (深圳市東陽光實業發展有限公司), the Controlling Shareholder of the Company and therefore a connected person of the Company (as the grantor)
- The Company (as the grantee)

(collectively, the “**Parties**”)

Subject Matters:

The grantor, being an owner of equity interests in Sunshine Lake Pharma (the “**Subject Equity**”), has agreed to transfer to the grantee with, on the terms and conditions under the Gift Agreement on Equity Interests, and the grantee has agreed to accept, on such terms and conditions, the Subject Equity that is free from any encumbrance and all rights attached to it. The grantor may designate a third party to transfer the Subject Equity to the grantee, which is deemed to be a transfer of the Subject Equity from the grantor to the grantee. Upon completion of the transfer, the grantee obtains the ownership of the Subject Equity and has the right to manage, use, benefit from and dispose of the Subject Equity as well as to undertake the obligations, responsibilities and risks of the Subject Equity.

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Financial Information of the Subject Entity

The (i) net asset value of the Subject Entity for the year ended 31 December 2019 is RMB37,988,000 and (ii) net profits (both before and after taxation) attributable to the Subject Entity for the two years ended 31 December 2018 and 2019 are negative (i.e. –RMB105,232,000 and –RMB57,415,000).

Conditions Precedent

The closing of the Subject Equity shall be conditional upon the satisfaction of the following conditions:

- (1) the approval from their respective internal approval authorities (such as the board of directors and/or the general meeting) has been obtained in accordance with the Articles of Association of the Parties and the relevant laws and regulations;
- (2) from the date of entering into the Gift Agreement on Equity Interests to the completion date (including the completion date), the representations, warranties and undertakings made by the Parties remain true, accurate and not misleading;
- (3) the matters relating to this gift of equity interests (including the amendments to the competition undertaking by the De Facto Controllers and the Controlling Shareholders and the execution of new non-competition agreements) have been considered and approved by the board of directors and the general meeting of the Company and the Parent Company;
- (4) the necessary approvals (if applicable) from external regulatory authorities relating to this gift of equity interests have been obtained.

The Parties shall complete the registration procedures for transferring the Subject Equity with the competent authority as soon as possible and no later than 30 September 2021 after complete satisfaction of the aforesaid conditions and completion of this round of financing. The completion date shall be the date of the registration by the competent authority.

In particular, if Sunshine Lake Pharma applies for the initial public offering of shares on a domestic and overseas stock exchange (the “**Application for the Listing**”), the grantor shall guarantee that the proportion of equity interest in Sunshine Lake Pharma held by the grantee before the application for the initial listing of Shares of Sunshine Lake Pharma shall not be less than 9%; if less than 9%, the grantor shall further provide a supplementary gift to the grantee until the grantee holds 10% equity interest in Sunshine Lake Pharma.

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Establishment and Effectiveness of the Gift Agreement on Equity Interests

- (1) This Gift Agreement on Equity Interests is established on the date when the Parties stamp with their respective official chops and is signed by respective legal representatives (or authorized representatives).
- (2) This Gift Agreement on Equity Interests shall take effect from the date of approval by the internal approval authorities of the Parties and the Parent Company (such as the board of directors and/or the general meeting) in accordance with the Articles of Association of the Parties and the relevant laws and regulations.

3. REASONS FOR AND BENEFITS OF THE AMENDMENTS TO THE NON-COMPETITION AGREEMENT

As a pharmaceutical research and development platform of the Controlling Shareholders, Sunshine Lake Pharma is a company that engages in businesses such as the development and production of pharmaceutical products as well as the sales of pharmaceutical products outside the PRC, which has enriched the Company's product portfolio in a long run and contributed to the development of listed companies. However, due to the long research and development cycle, high investment, long return cycle and certain uncertainties, in order to solve the problem of research and development fund and accelerate the research and development progress, Sunshine Lake Pharma intends to introduce strategic investors to enhance the capital strength for independent development and promote listing in domestic and overseas securities markets. However, pursuant to the existing non-competition agreement, the Company is entitled to the priority and option right to the related business, assets and interests of Sunshine Lake Pharma, affecting the business stability and the asset independence of Sunshine Lake Pharma, the financing and subsequent capital operation, subsequent investment in and progress of research and development and thus the Company's continued opportunity to obtain more commercialization rights for domestic pharmaceutical products, which is not conducive to the long-term business development of the Company.

The Company is principally engaged in businesses such as the development and production of pharmaceutical products as well as the sales of pharmaceutical products within the PRC, and is not currently engaged in any overseas sales of pharmaceutical products. According to the existing non-competition agreement, the Company is entitled to the priority and option right to the overseas business, assets and interests of Sunshine Lake Pharma. However, since the production and sales activities of the overseas pharmaceutical business of Sunshine Lake Pharma are carried out around research and development, the system in respect of research and development, production and sales may not be divided. If the Company acquires the overseas pharmaceutical product business of Sunshine Lake Pharma, it is necessary to incorporate Sunshine Lake Pharma as a whole. Yet, Sunshine Lake Pharma is still mainly in the phase of new drug research and development with large unrecovered losses and a large pipeline of products under research, which requires a long-term and continuous investment in research and development. The exercise of such right will enhance the capital pressure of the Company and adversely affect its financial conditions.

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Moreover, in order to reduce the Company's initial capital investment and accelerate the commercialization of research and development results, the Controlling Shareholders propose to procure Sunshine Lake Pharma and the Company to carry out business cooperation in respect of the domestic pharmaceutical products by way of supplementary undertaking. The income distribution of the Domestic Cooperative Products shall be determined by the mutual agreement between the parties based on the specific conditions of the products. The income distribution is mainly based on a sales income sharing model. This cooperation model is conducive to reducing the risk of initial investment and unrecoverable investment, which is more conducive to the Company's healthy and sustainable development.

The Company has not yet engaged in any overseas sales of pharmaceutical products. The cooperation model with Sunshine Lake Pharma after execution of the Sunshine Lake Pharma Non-Competition Agreement (i.e. the Company's obtaining opportunities for the promotion and commercialization of the products within the PRC at nil consideration). Such cooperation model will reduce the initial cost of the Company to obtain new products, release the pressure suffered by Sunshine Lake Pharma on products promotion and commercialization and advance the research and development of products by Sunshine Lake Pharma, which would in turn provide more products with the Company for its commercialization of the products within the PRC, thus strengthening the Company's ability for its sustainable development. As a result, the interests of Company and the Company's minority shareholders will be protected.

In order to further protect the interests of the Company, the shareholders of the Company entered into the Gift Agreement on Equity Interests with the Company, according to which the controlling shareholders of the Company intend to grant the Subject Equity to the Company through itself or a third party designated by it at nil consideration. If Sunshine Lake Pharma applies to its initial listing in any stock exchange in the PRC or overseas, the Controlling Shareholders shall guarantee that the proportion of equity interest of the Company in Sunshine Lake Pharma before its application for its Initial Listing shall not be less than 9%; otherwise Sunshine Lake Pharma shall further provide a supplementary gift to the Company until the Company holds 10% equity interest.

After execution of the Gift Agreement on Equity Interests, the Company will hold no less than 9% equity interests in Sunshine Lake Pharma before its initial public offering. The Company will become one of Sunshine Lake Pharma's major shareholders and may exert influence on its business operation. In addition, Sunshine Lake Pharma is one of the outstanding research and development institutes in the PRC. After the initial public offering of Sunshine Lake Pharma, the Company can obtain opportunities for the promotion and commercialization of the products within the PRC at nil consideration and enjoy the increase in value of the equity interests in Sunshine Lake Pharma after its public offering. As a result, the interests of the Company and the minority shareholders of the Company will be protected.

In summary, the Directors (excluding all the independent non-executive Directors, who will give their opinion based on the recommendations from the independent financial adviser) are of the view that the terms of the amendments to the non-competition agreements, which have been agreed after arm's length negotiations, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Corporate Governance Measures

In order to ensure the compliance with the New Non-Competition Agreements, the Company will adopt the following corporate governance measures:

- (1) we will provide the independent non-executive Directors with the offer notice on the new business opportunity referred to us by the Controlling Shareholders and selling notice on pre-emptive rights or the cooperation notice from Sunshine Lake Pharma (as the case may be) within 7 days of receipt;
- (2) the independent non-executive Directors will review, on an annual basis, the compliance with the New Non-Competition Agreements by the Controlling Shareholders;
- (3) the Controlling Shareholders undertake to provide the Company with all the information necessary for the annual review conducted by the independent non-executive Directors. The independent non-executive Directors may engage professional advisors at the Company's expense to advise on matters relating to the New Non-Competition Agreements;
- (4) the independent non-executive Directors will report their findings on the compliance of the Controlling Shareholders with the New Non-Competition Agreements in our annual report; and
- (5) the Directors consider that the independent non-executive Directors have sufficient experience in assessing whether or not to take up any new business opportunities or exercise pre-emptive rights. In any case, as stated above, the independent non-executive Directors may appoint financial advisor or professional expert to provide advice, at the cost of the Company, in connection with the exercise or non-exercise of the option or pre-emptive right under the New Non-Competition Agreements.

Further, any proposed transaction between the Company, the Controlling Shareholders and the subsidiaries of the Controlling Shareholders will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

Implications under the Listing Rules

As at the Latest Practicable Date, the Parent Company, Shenzhen HEC Industrial Development Co., Ltd., Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd., Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd., Ms. Guo Meilan and Mr. Zhang Yushuai are the Controlling Shareholders of the Company, and therefore, they are the connected persons of the Company. Each of HEC Pharm Co., Ltd., Dongguan HEC Industrial Development Co., Ltd., Yichang HEC Pharmaceutical Co., Ltd. and Sunshine Lake Pharma is a subsidiary of the Controlling Shareholders, and is therefore a connected person of the Company. Accordingly, the entering into of the

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Revised Non-Competition Agreements constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements.

As the highest applicable percentage ratio in respect of the entering into of the transactions under the Revised Non-Competition Agreements is more than 5% but less than 25%, the entering into of the transactions under the Revised Non-Competition Agreements constitute a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

By virtue of his position as a director and general manager of Shenzhen HEC Industrial Development Co., Ltd., Mr. Tang Xinfu, a non-executive Director, is considered to have a material interest in the entering into of the transactions under the Revised Non-Competition Agreements and has abstained from voting on the resolutions of the Board in relation to the entering into of the transactions under the Revised Non-Competition Agreements.

Information on the Parties

The Company

The Company is principally engaged in businesses such as the development and production of pharmaceutical products as well as the sales of pharmaceutical products within the PRC. The ultimate beneficial owners of the Company are Ms. Guo Meilan and Mr. Zhang Yushuai.

HEC Pharm Co., Ltd.

HEC Pharm Co., Ltd. is a company incorporated in the PRC and is principally engaged in the research and development, production and sales of macrolide antibiotics, antiviral and other active pharmaceutical ingredients. HEC Pharm Co., Ltd. is a controlled subsidiary of Shenzhen HEC Industrial Development Co., Ltd., the Controlling Shareholder of the Company. The ultimate beneficial owners of HEC Pharm Co., Ltd. are Ms. Guo Meilan and Mr. Zhang Yushuai.

Yichang HEC Pharmaceutical Co., Ltd.

Yichang HEC Pharmaceutical Co., Ltd. is a company incorporated in the PRC and is principally engaged in the investment, establishment and management of companies in the large health industry. Yichang HEC Pharmaceutical Co., Ltd. is a wholly-owned subsidiary of Shenzhen HEC Industrial Development Co., Ltd., the Controlling Shareholder of the Company. The ultimate beneficial owners of Yichang HEC Pharmaceutical Co., Ltd. are Ms. Guo Meilan and Mr. Zhang Yushuai.

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Dongguan HEC Industrial Development Co., Ltd.

Dongguan HEC Industrial Development Co., Ltd. is a company incorporated in the PRC and is principally engaged in the investment, establishment and management of companies in various industries. Dongguan HEC Industrial Development Co., Ltd. is a wholly-owned subsidiary of Shenzhen HEC Industrial Development Co., Ltd., the Controlling Shareholder of the Company. The ultimate beneficial owners of Dongguan HEC Industrial Development Co., Ltd. are Ms. Guo Meilan and Mr. Zhang Yushuai.

Shenzhen HEC Industrial Development Co., Ltd.

Shenzhen HEC Industrial Development Co., Ltd. is a company incorporated in the PRC and is principally engaged in the investment and establishment of companies involving in various industries, domestic trading, import and export businesses. Shenzhen HEC Industrial Development Co., Ltd. is the holding company of the Company. The ultimate beneficial owners of Shenzhen HEC Industrial Development Co., Ltd. are Ms. Guo Meilan and Mr. Zhang Yushuai.

Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd.

Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. is a company incorporated in the PRC and is principally engaged in the investment and establishment of companies involving in various industries (including materials and electronic components), domestic business, supply and sale of materials as well as purchase and sale of electronic products. Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. is the holding company of Shenzhen HEC Industrial Development Co., Ltd. The ultimate beneficial owners of Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. are Ms. Guo Meilan and Mr. Zhang Yushuai.

Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd.

Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. is a company incorporated in the PRC and is principally engaged in the investment and establishment of companies involving in various industries (including materials and electronic components), domestic business, supply and sale of materials as well as purchase and sale of electronic products. Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. is the holding company of Shenzhen HEC Industrial Development Co., Ltd. The ultimate beneficial owners of Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. are Ms. Guo Meilan and Mr. Zhang Yushuai.

Sunshine Lake Pharma

Sunshine Lake Pharma is a company incorporated in the PRC. It is a pharmaceutical innovation research and development company principally engaged in businesses such as the research and development, pre-clinical and clinical development, drug registration, production and overseas sales of pharmaceutical products of small molecule innovative drugs, bio-innovative drugs and generic drugs. Sunshine Lake Pharma is a controlled

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subsidiary of Shenzhen HEC Industrial Development Co., Ltd., the Controlling Shareholder of the Company. The ultimate beneficial owners of Sunshine Lake Pharma are Ms. Guo Meilan and Mr. Zhang Yushuai.

4. EGM

The EGM will be held at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC at 10:00 a.m. on Friday, 25 June 2021 for Shareholders to consider and, if thought fit, to approve transactions under the Revised Non-Competition Agreements.

The Parent Company is required to abstain from voting on the resolution to be proposed at the EGM to approve the entering into of the Revised Non-Competition Agreements and the transactions contemplated thereunder.

A notice convening the EGM, together with the form of proxy for use at the EGM, has been despatched to the Shareholders on Friday, 28 May 2021 and uploaded on the websites of the Stock Exchange and the Company. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's Board office at Securities Department, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC (for holders of Domestic Shares) or to the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares). In any event, such form of proxy must be returned no later than 24 hours before the time appointed for the EGM (i.e. before 10:00 a.m. on Thursday, 24 June 2021) or any adjournment thereof. Completion and return of the form of proxy shall not preclude Shareholders from attending, and voting in person at the EGM or any adjournment thereof if they so desire.

In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM, the register of members of the Company has been closed for registration of transfer of Shares from Tuesday, 22 June 2021 to Friday, 25 June 2021 (both days inclusive) and during which period no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company at the close of business on Monday, 21 June 2021 shall be entitled to attend and vote at the EGM. In order for the Shareholders to be qualified for attending and voting at the EGM, all transfer documents, accompanied by the relevant Share certificates, must be lodged with the Company's Board office at Securities Department, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC (for holders of Domestic Shares), or the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) no later than 4:30 p.m. on Monday, 21 June 2021 for registration.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, the resolutions set out in the notice of the EGM shall be voted by poll. Shareholders may vote either in person or by proxy.

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5. RECOMMENDATION OF THE BOARD

The Directors are of the opinion that the transactions under the Revised Non-Competition Agreements as contemplated thereunder are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Independent Shareholders should vote in favour of the ordinary resolution to be proposed at the EGM.

By virtue of his position as a director and general manager of Shenzhen HEC Industrial Development Co., Ltd., Mr. Tang Xinfu, a non-executive Director, is considered to have a material interest in the entering into of the transactions under the Revised Non-Competition Agreements and has abstained from voting on the resolutions of the Board in relation to the entering into of the transactions under the Revised Non-Competition Agreements.

6. RECOMMENDATIONS OF THE INDEPENDENT FINANCIAL ADVISER AND THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the transactions under the Revised Non-Competition Agreements as contemplated thereunder, and Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

Gram Capital considers the transactions under the Revised Non-Competition Agreements are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, Gram Capital recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the transactions under the Revised Non-Competition Agreements as contemplated thereunder. The full text of the Letter from the Independent Financial Adviser issued by Gram Capital containing its recommendation in respect of the transactions under the Revised Non-Competition Agreements as contemplated thereunder is set out on pages 29 to 50 of this circular.

The Independent Board Committee, having taken into account the advice of Gram Capital, considers the transactions under the Revised Non-Competition Agreements are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the transactions under the Revised Non-Competition Agreements as contemplated thereunder. The full text of the Letter from the Independent Board Committee is set out on page 28 of this circular.

Yours faithfully
On behalf of the Board
YiChang HEC ChangJiang Pharmaceutical Co., Ltd.
TANG Xinfu
Chairman



YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司

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

(Stock Code: 01558)

28 May 2021

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
AMENDMENTS TO THE NON-COMPETITION AGREEMENT**

We refer to the circular of the Company dated 28 May 2021 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board as the members of the Independent Board Committee to consider the transactions under the Revised Non-Competition Agreements and to advise the Independent Shareholders in respect of the transactions under the Revised Non-Competition Agreements. Gram Capital has been appointed as the Independent Financial Adviser in this regard.

We wish to draw your attention to the “Letter from the Board” and the “Letter from Gram Capital” as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Gram Capital as set out in their letter of advice, we consider that the transactions under the Revised Non-Competition Agreements, although not conducted in the ordinary and usual course of business of the Company, is on normal commercial terms which are fair and reasonable and the transactions under the Revised Non-Competition Agreements are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution approving the transactions under the Revised Non-Competition Agreements at the EGM.

Yours faithfully

For and on behalf of the Independent Board Committee of
YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

TANG Jianxin
*Independent Non-
Executive Director*

ZHAO Dayao
*Independent Non-
Executive Director*

XIANG Ling
*Independent Non-
Executive Director*

LI Xuechen
*Independent Non-
Executive Director*

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions under the Revised Non-Competition Agreements for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

28 May 2021

*To: The independent board committee and the independent shareholders
of YiChang HEC ChangJiang Pharmaceutical Co., Ltd.*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS AMENDMENTS TO THE NON-COMPETITION AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions under the Revised Non-Competition Agreements (the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 28 May 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Company entered into a non-competition agreement with the then controlling shareholders of the Company (the “**2015 Controlling Shareholders**”) in December 2015 (the “**2015 Non-Competition Agreement**”), pursuant to which, the 2015 Controlling Shareholders agreed not to, and will procure their subsidiaries (other than the Group) not to, compete with the Group in the Group’s businesses and granted the Group the right to acquire the businesses of production and sales of active pharmaceutical ingredients (APIs) and overseas sales of pharmaceutical products operated by the Parent Company and/or its subsidiaries (other than the Group) and certain future new businesses.

As the Company and Sunshine Lake Pharma (being a controlled subsidiary of the Controlling Shareholders) will make more specific arrangements in relation to the business cooperation, the relevant contents of the 2015 Non-Competition Agreement will no longer be applicable to Sunshine Lake Pharma. Therefore, the Controlling Shareholders proposed to amend the 2015 Non-Competition Agreement to stipulate that the relevant contents of the 2015

LETTER FROM GRAM CAPITAL

Non-Competition Agreement will no longer be applicable to Sunshine Lake Pharma and that a new non-competition agreement will be entered into between Sunshine Lake Pharma and the Company.

In order to further protect the interests of the Company, the Controlling Shareholders of the Company intend to grant 10% of the equity of Sunshine Lake Pharma (the “**Subject Equity**”) to the Company through itself or a third party designated by it at nil consideration.

With reference to the Board Letter, the transactions under the Revised Non-Competition Agreements constitute discloseable and connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapters 14 and 14A of the Listing Rules.

The Independent Board Committee comprising Mr. TANG Jianxin, Mr. ZHAO Dayao, Ms. XIANG Ling and Mr. LI Xuechen (all being the independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital (i) was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to discloseable and connected transactions (details of which are set out in the Company’s circular dated 6 January 2020); and (ii) is engaged as the independent financial adviser to the Independent Board Committee and Independent Shareholders of the Company in relation to connected transaction and continuing connected transactions (details of which are set out in the Company’s announcement dated 19 March 2021) (the “**March Transactions**”).

Notwithstanding the aforesaid engagements, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as hindrance to Gram Capital’s independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions and the March Transactions, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Revised Non-Competition Agreements. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Controlling Shareholders, HEC Pharm Co., Ltd.* (宜昌東陽光藥業股份有限公司), Yichang HEC Pharmaceutical Co., Ltd.* (宜昌東陽光健康藥業有限公司), Dongguan HEC Industrial Development Co., Ltd.* (東莞市東陽光實業發展有限公司), Sunshine Lake Pharma or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Transactions

Information on the Company

With reference to the Board Letter, the Company is principally engaged in businesses such as the development and production of pharmaceutical products as well as the sales of pharmaceutical products within the PRC. The ultimate beneficial owners of the Company are Ms. Guo Meilan and Mr. Zhang Yushuai.

Set out below is the consolidated financial information of the Company for the two years ended 31 December 2020 as extracted from the Company's annual report for the year ended 31 December 2020 (the "2020 Annual Report"):

| | For the year ended 31 December 2020 ("FY2020") (audited) RMB'000 | For the year ended 31 December 2019 ("FY2019") (audited) RMB'000 | Change from FY2019 to FY2020 % |
|---|--|--|---|
| Turnover | 2,348,113 | 6,224,024 | (62.27) |
| — Sales of anti-viral drugs | 2,071,614 | 5,939,463 | (65.12) |
| — Sales of endocrine and metabolic drugs | 94,529 | 103,447 | (8.62) |
| — Sales of cardiovascular drugs | 66,780 | 84,844 | (21.29) |
| — Sales of other medical products | 115,190 | 96,270 | 19.65 |
| Gross profit | 1,996,566 | 5,302,202 | (62.34) |
| Profit attributable to owners of the Company | 839,455 | 1,918,709 | (56.25) |

As illustrated in the above table, the Group recorded a substantial decrease of approximately 62.27% in turnover for FY2020 as compared that for FY2019. The aforesaid decrease was mainly due to the influence of COVID-19 pandemic in 2020, the mobility of China's domestic population has declined, and the number of medical activities, prescriptions and sales volume of drugs in hospitals has also decreased

accordingly. The Group's core product, Kewei, is a prescription medicine sold primarily at tiered hospitals, and the sales volume of this product has also declined due to the impact of the COVID-19 pandemic.

With reference to the 2020 Annual Report, although financial performance of the Group declined to a large extent during FY2020 by COVID-19 pandemic, while the products under research had a smooth progress during the FY2020. The production approvals for multiple products have been obtained and the new drug applications of multiple products have been accepted.

Information on the parties to the Revised Non-competition Agreements

Parties to the Revised Non-competition Agreements included HEC Pharm Co., Ltd., Yichang HEC Pharmaceutical Co., Ltd., Dongguan HEC Industrial Development Co., Ltd., Shenzhen HEC Industrial Development Co., Ltd., Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd., Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd., Ms. Guo Meilan, Mr. Zhang Yushuai and Sunshine Lake Pharma. Details of the parties are set out under the section headed "Information on the Parties" of the Board Letter.

Background of the 2015 Non-competition Agreement

With reference to the Company's prospectus dated 15 December 2015, the Company entered into the 2015 the Non-competition Agreement with the 2015 Controlling Shareholders, under which the 2015 Controlling Shareholders agreed not to, and to procure their subsidiaries (other than the Group) not to, compete with the Group in its businesses and granted the Group options to acquire the businesses of production and sale of APIs and overseas sale of pharmaceutical products operated by the 2015 Controlling Shareholders and/or its subsidiaries (other than the Group) and certain future new business.

Details of the 2015 the Non-competition Agreement was disclosed in pages 283 to 286 in the Company's prospectus dated 15 December 2015.

Reasons for and benefits of the Transactions

Certain reasons for and benefits of the Transactions are set out under the section headed "REASONS FOR AND BENEFITS OF THE AMENDMENTS TO THE NON-COMPETITION AGREEMENT" in the Board Letter.

We conducted following analyses to form our view in respect of the reasons for and benefits of the Transactions:

(i) No impact to the Group's existing business scope

As confirmed by the Directors, the business scopes of each the Group and Sunshine Lake Pharma are clearly separated.

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As mentioned above, the Company is principally engaged in businesses such as the development and production of pharmaceutical products as well as the sales of pharmaceutical products **WITHIN** the PRC, and is not currently engaged in any overseas sales of pharmaceutical products.

According to the Company's published annual reports for the past years, no geographic information is shown as the Group's operating profit is derived from activities of manufacture and sale of pharmaceutical products in the PRC.

Sunshine Lake Pharma is a company that engages in businesses such as the development and production of pharmaceutical products as well as the sales of pharmaceutical products **OUTSIDE** the PRC.

According to the Sunshine Lake Pharma Non-Competition Agreement, the Company and Sunshine Lake Pharma undertake and procure their respective subsidiaries, among other things, not to directly or indirectly engage in or participate in, or assist or support any third party to engage in or participate in, either alone or with others, any business which competes or may compete, directly or indirectly, with the principal business of the counterparty and its subsidiaries in any form.

Despite that the Sunshine Lake Pharma Non-Competition Agreement limit the Group's scope of business activities within the PRC, there is no difference between the Group's existing business scope (i.e. conduct relevant businesses **WITHIN** the PRC) and the limited scope of business after the effective of the Sunshine Lake Pharma Non-Competition Agreement (i.e. not to conduct relevant businesses **OUTSIDE** PRC).

(ii) *The Group's benefit from the 2021 Non-Competition Agreement essentially remains unaffected*

According to the Sunshine Lake Pharma Non-Competition Agreement, Sunshine Lake Pharma undertakes and procures its respective subsidiaries:

- not to directly or indirectly engage in or participate in, or assist or support any third party to engage in or participate in, either alone or with others, any business which competes or may compete, directly or indirectly, with the principal business of the Group in any form in the PRC.
- during the validity period of the Sunshine Lake Pharma Non-Competition Agreement, if Sunshine Lake Pharma becomes aware of any relevant new business opportunity that competes or may compete, directly or indirectly, with the principal business of the counterparty, it shall give priority to offer such opportunity to the Group. If the Group decides not to accept the relevant new business opportunity for any reason, Sunshine Lake Pharma may operate such new business opportunity itself.

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According to the 2015 Non-Competition Agreement, the 2015 Controlling Shareholders agreed not to, and will procure their subsidiaries (other than the Group) not to, compete with the Group in the Group's businesses and granted the Group the right to acquire the businesses of production and sales of active pharmaceutical ingredients and overseas sales of pharmaceutical products operated by the Parent Company and/or its subsidiaries (other than the Group) and certain future new businesses.

According to the 2021 Non-Competition Agreement, the 2021 Non-Competition Agreement only excluded the contents involving Sunshine Lake Pharma (as a controlled subsidiary of the Controlling Shareholders). Other terms of the 2021 Non-Competition Agreement are the same as the terms of the 2015 Non-Competition Agreement.

As the amendments will only excluded the contents involving Sunshine Lake Pharma and (i) in fact the Group and Sunshine Lake Pharma conduct business in different regions (i.e. within PRC and outside PRC), there has been no competition between the Group and Sunshine Lake Pharma as to business scope; and (ii) other terms of the 2021 Non-Competition Agreement are the same as the terms of the 2015 Non-Competition Agreement, the Group's benefit from the 2021 Non-Competition Agreement essentially remains unaffected as compared to the Group's benefit from the 2015 Non-Competition Agreement.

(iii) Other alternatives to the Group

A. Acquisition of Sunshine Lake Pharma

As mentioned above, according to the 2015 Non-competition Agreement, the Company is entitled to the priority and option right to the overseas business, assets and interests of Sunshine Lake Pharma. However, since the production and sales activities of the overseas pharmaceutical business of Sunshine Lake Pharma are carried out around research and development, the system in respect of research and development, production and sales may not be divided. If the Company acquires the overseas pharmaceutical product business of Sunshine Lake Pharma, it is necessary to incorporate Sunshine Lake Pharma as a whole. Yet, Sunshine Lake Pharma is still mainly in the phase of new drug research and development with large unrecovered losses and a large pipeline of products under research, which requires a long-term and continuous investment in research and development. The exercise of such right will enhance the capital pressure of the Company and adversely affect its financial conditions.

In addition, based on the Directors' understanding, there are also various regulations governing the overseas pharmaceutical market, which requires, among other things, the maintenance of pharmaceutical products after the obtaining of relevant approval from relevant authorities, the frequently on-site checking by relevant authorities, etc..

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Furthermore, if the Company acquires Sunshine Lake Pharma and Sunshine Lake Pharma becomes a subsidiary of the Company (in such situation, the Company can control Sunshine Lake Pharma), the Group will obtain pharmaceutical products from Sunshine Lake Pharma by way from previously acquisition to self-research-and-development (as Sunshine Lake Pharma becomes a member of the Group). Under the aforesaid circumstances, the Group (including Sunshine Lake Pharma) may spend substantial resources to self-research-and-develop pharmaceutical products and also bear the risk of research and development failure. Even the products were successfully developed by the Group, the application of drug registration approval procedures for those products may be time consuming and burdensome. Through the previous acquisition-of-products model previously or the new cooperation model (as discussed in (iv) below), the Company can avoid substantial investment into drug research and development and lower the risk of research failure.

Therefore, we concur with the Directors that it is currently not feasible for the Group to acquire Sunshine Lake Pharma.

B. Self-development of overseas market

As confirmed by the Directors, the Group focuses on domestic market and does not have overseas customers for the Group's pharmaceutical products. In addition, the Group currently does not intend to apply for registration or license with overseas regulatory authorities for sale of the Group's pharmaceutical products in overseas markets, which is a or one of the pre-condition(s) for the sale of the Group's pharmaceutical products in overseas markets.

As mentioned in the 2020 Annual Report, looking back to 2020, China's economy faced various challenges. As a national emerging industry of strategic importance, the pharmaceutical industry has continued to develop steadily in light of national policies. With the new policies related to pharmaceuticals, medical insurance and healthcare services released frequently, the accelerated survival of the fittest among the pharmaceutical enterprises is more conducive to people's livelihood. In order to actively adapt to the new normal of the pharmaceutical industry, the pharmaceutical enterprises need to make flexible adjustments and changes actively in response to the market environment.

In 2020, the COVID-19 pandemic swept the world. Apart from the huge impact on people's livelihood, it also sounded the alarm for all sectors of society. As the basic guarantee for maintaining livelihood, the pharmaceutical industry has received great attention from all walks of life. The demand for In Vitro Diagnostic products and vaccines is gradually increasing due to the increased national health awareness. In addition, the rapid growth of the pharmaceutical e-commerce market also provides new opportunities for the development of the pharmaceutical market.

With the government's encouragement in R&D and commercialization of innovative new drugs, and optimization of the approval process, innovative new drugs can be included in the Medical Reimbursement Drug List by way of negotiation in a timely manner, and domestic pharmaceutical companies enter into R&D fast track. Policies such as Consistency Evaluation of generic drugs (e.g. 《國務院辦公廳關於開展仿製藥質量和療效一致性評價的意見》(國辦發[2016]8號) (the Opinions of the General Office of the State Council on the Commencement of Consistency Evaluation on the Quality and Healing Effect of Generic Drugs (Guo Ban Fa [2016] No. 8)*) issued by General Office of the State Council in February 2016 and 《總局關於落實〈國務院辦公廳關於開展仿製藥質量和療效一致性評價的意見〉有關事項的公告》(2016年第106號) (the Announcement on the Implementation of Matters in Relation to the 2016 Opinions of the General Office of the State Council on the Commencement of Consistency Evaluation on the Quality and Healing Effect of Generic Drugs (2016 No. 106)*) issued by the CFDA in May 2016) and centralized procurement (e.g. 《4+7城市藥品集中採購文件》(The Papers on Centralized Drug Procurement in "4+7" Cities) published by the Joint Procurement Office led by the State Administration for Medical Insurance in November 2018, 《國務院辦公廳關於印發國家組織藥品集中採購和使用試點方案的通知》(Notice of Issuing Pilot Program of the Centralized Procurement and Use of Drugs Organized by the State*) published by the General Office of the State Council in January 2019, 《聯盟地區藥品集中採購文件》(The Papers on Centralized Drug Procurement in Alliance Areas*) published by the Joint Procurement Office in September 2019) continue to promote the reform of pharmaceutical industry and accelerate the survival of the fittest among the enterprises. Pharmaceutical companies with strong R&D capabilities, diversified product pipelines, well-developed production systems, strong brand advantages and excellent sales and marketing teams will gain unprecedented development opportunities. In response to national policies, the Group actively participated in the centralized procurement of drugs, and has won bids for multiple products. The Emitasvir Phosphate Capsules, intellectual property rights owned by the Company, has obtained approval to launch. Emitasvir Phosphate Capsule is national Class 1 innovative new drug with the intellectual property rights owned by the Company, which is an anti-hepatitis C oral direct-acting antiviral drug, continuing to consolidate the Group's advantage in the anti-virus therapeutic area. Recombinant Human Insulin Injection, of which research and development was carried out by the Group, has obtained approval for launch. Recombinant Human Insulin Injection is the first biologic drug of the Group approved to launch, which marked the beginning of the brand of the Group entering the field of biological medicine. The registrations of domestic production for Insulin Glargine Injection and Insulin Aspart 30 Injection have been accepted. Linagliptin Tablets, Linagliptin and Metformin Hydrochloride Tablets, Sitagliptin Tablets, Sitagliptin Phosphate and Metformin Hydrochloride Tablets and Alogliptin Benzoate Tablets obtained approvals to launch. The Group's drugs in the field of diabetes keep entering into the market, providing patients with high-quality and cost-effective medication options. Furthermore, the Group has also obtained approvals for the launch of multiple generic drug varieties. It

is expected that the approvals for more than a dozen drug varieties will be obtained within two years. As more products are approved for launch, the therapeutic areas covered by the Group's product lines will be further diversified, providing new growth drivers for the Group's mid- to long-term development. Meanwhile, the Group actively expands external cooperation. For example, the Group entered into a strategic cooperation agreement with China Resources Pharmaceutical Commercial Group Co., Ltd. (華潤醫藥商業集團有限公司) (“**CR Pharmaceutical Commercial**”) to jointly develop an internet E-commerce platform dedicated to improving terminal coverage of the products. The Group also renewed the 2015 Strategic Cooperation Agreement with Shenzhen HEC Industrial Development Co., Ltd. (“**Shenzhen HEC Industrial**”), under which the Group continues to enjoy the rights of product acquisition options and pre-emption rights (i.e. the Previous Acquisitions (as defined below)), providing a strong guarantee for the Group's subsequent product layout.

Looking forward, the Company will continue to enrich its product portfolio and improve its income structure by way of in-house R&D and external collaborations. The Company will integrate the resources of internal and external R&D, production and sales channels of the Group, and will expand its scope of business, strive to be a leading brand in the pharmaceutical manufacturing industry as well as an influential pharmaceutical corporate in China in therapeutic areas including anti-viral, anti-infective and endocrine and metabolic diseases.

Based on the above mentioned factors, the Directors emphasised that currently, the Group will continuously focus on domestic market and does not intend to apply for registration or license with overseas regulatory authorities for sale of the Group's pharmaceutical products in overseas markets.

(iv) New cooperation model between the Group and Sunshine Lake Pharma

With reference to the Board Letter, in order to reduce the Company's initial capital investment and accelerate the commercialization of research and development results, the Controlling Shareholders propose to procure Sunshine Lake Pharma and the Company to carry out business cooperation in respect of the domestic pharmaceutical products by way of supplementary undertaking. The income distribution of the Domestic Cooperative Products shall be determined by the mutual agreement between the parties based on the specific conditions of the products. The income distribution is mainly based on a sales income sharing model. This cooperation model is conducive to reducing the risk of initial investment and unrecoverable investment, which is more conducive to the Company's healthy and sustainable development.

Previously, the Company acquired target products with all interests, benefits attached and all rights legally entitled, and all obligations assumed in accordance with laws within the PRC thereon (the “**Target Asset(s)**”) from Sunshine Lake

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Pharma. Despite that relevant acquisition was (i) in line with the Group's development strategy; (ii) appropriate (as compared to self-research-and-develop); and (iii) in the interests of the Company and the Shareholders as a whole, it took substantial working capital of the Group for the relevant competition (e.g. the Group's acquisition of two Target Assets with cash consideration of RMB2,057 million in 2019; the Group's acquisition of 27 Target Assets with cash consideration of approximately RMB1,626.43 million in 2019; The Group's acquisition of 6 Target Assets with cash consideration of RMB505.2 million in 2018 (the aforesaid acquisitions together, the "**Previous Acquisitions**")).

Under the new cooperation model (pursuant to the Sunshine Lake Pharma Non-Competition Agreement), Sunshine Lake Pharma shall be responsible for all research and development activities, submission of regulatory approval documents, completion of clinical trials, obtaining of pharmaceutical approval numbers and other cooperative arrangements for the Domestic Cooperative Products; Sunshine Lake Pharma shall have the right to choose to retain the relevant intellectual property rights, proprietary technologies, clinical trial approvals and pharmaceutical approval numbers for the domestic pharmaceutical products, and determine fair terms for the cooperation and transaction of the Domestic Cooperative Products through various market-based mechanisms (including in the form of negotiations with the Company, etc.) for commercialization (but the Company shall have the right not to accept such cooperation opportunities); if the Company determines to accept the cooperation opportunities, the Company may be given priority to obtain opportunities for the promotion and commercialization of the Domestic Cooperative Products within the PRC at **NIL** consideration and cooperate and carry out transactions through the income sharing model.

Therefore, the Sunshine Lake Pharma Non-Competition Agreement will enable the Group to promote and commercialize the Domestic Cooperative Products with initial nil consideration (income distribution between Sunshine Lake Pharma and the Company in respect of the Domestic Cooperative Products shall be determined by mutual agreement between the parties based on the specific conditions of the products) instead of substantial cash investment (i.e. Previous Acquisitions).

(v) Gift Agreement on Equity Interests

With reference to the Board Letter, in order to further protect the interests of the Company, the Controlling Shareholders of the Company, intend to grant 10% of the equity of Sunshine Lake Pharma to the Company through itself or a third party designated by it at nil consideration.

If the Company becomes a shareholder of Sunshine Lake Pharma, the Company will be benefit from Sunshine Lake Pharma's profit by way of dividend distribution (loss will not be distribute to shareholders). Unlike the investment in equity interests, if Sunshine Lake Pharma's equity interests became no value, the Group will not suffer from any loss as the Equity Interests were gift to the Company with nil consideration.

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However, the Gift Agreement on Equity Interests will be effective, among other things, the matters relating to the gift of equity interests (including the amendments to the competition undertaking by the De Facto Controllers and the Controlling Shareholders and the execution of new non-competition agreements) have been considered and approved by the board of directors and the general meeting of the Company and the Parent Company.

(vi) Conducive to the long-term business development of the Company

With reference to the Board Letter, due to the long research and development cycle, high investment, long return cycle and certain uncertainties, in order to solve the problem of research and development fund and accelerate the research and development progress, Sunshine Lake Pharma intends to introduce strategic investors to enhance the capital strength for independent development and promote listing in domestic and overseas securities markets (the “**Sunshine Lake Pharma’s Fund Raising Activities**”). However, pursuant to the existing non-competition agreement, the Company is entitled to the priority and option right to the related business, assets and interests of Sunshine Lake Pharma, affecting the business stability and the asset independence of Sunshine Lake Pharma, the financing and subsequent capital operation, subsequent investment in and progress of research and development and thus the Company’s continued opportunity to obtain more commercialization rights for domestic pharmaceutical products, which is not conducive to the long-term business development of the Company.

As confirmed by the Directors, looking forward, the Company will continue to enrich its product portfolio and improve its income structure by way of in-house R&D and external collaborations. Therefore, the Transactions will also, in the long-run, enable Sunshine Lake Pharma to solve the problem of research and development fund and accelerate the research and development progress (by way of introducing strategic investors without restriction under the 2015 Non-Competition Agreement), which will further conducive to the long-term business development of the Company.

Despite that the Group’s business geographic will be restricted within the PRC upon the effective of the Revised Non-Competition Agreements, however after taking into account of the above factors, in particular,

- (i) **there is no impact to the Group’s existing business scope:** the Company is principally engaged in businesses such as the development and production of pharmaceutical products as well as the sales of pharmaceutical products **WITHIN** the PRC, and is not currently engaged in any overseas sales of pharmaceutical products. Accordingly, there is no difference between the Group’s existing business scope (i.e. conduct relevant businesses **WITHIN** the PRC) and the limited scope of business after the effective of the Sunshine Lake Pharma Non-Competition Agreement (i.e. not to conduct relevant businesses **OUTSIDE** PRC);

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- (ii) **the Group's benefit from the 2021 Non-Competition Agreement essentially remains unaffected:** the amendments will only excluded the contents involving Sunshine Lake Pharma and (i) in fact the Group and Sunshine Lake Pharma conduct business in different regions (i.e. within PRC and outside PRC), there has been no competition between the Group and Sunshine Lake Pharma as to business scope; and (ii) other terms of the 2021 Non-Competition Agreement are the same as the terms of the 2015 Non-Competition Agreement;
- (iii) **in respect of other alternatives to the Group (i.e. acquisition of Sunshine Lake Pharma and self-development of overseas market):** (a) acquisition of Sunshine Pharma Lake is currently not feasible for the Group; and (b) the Group will continuously focus on domestic market and does not intend to apply for registration or license with overseas regulatory authorities for sale of the Group's pharmaceutical products in overseas markets;
- (iv) **new cooperation model between the Group and Sunshine Lake Pharma:** the Sunshine Lake Pharma Non-Competition Agreement will enable the Group to promote and commercialize the Domestic Cooperative Products with initial nil consideration (income distribution between Sunshine Lake Pharma and the Company in respect of the Domestic Cooperative Products shall be determined by mutual agreement between the parties based on the specific conditions of the products) instead of substantial cash investment (i.e. Previous Acquisitions);
- (v) **Gift Agreement on Equity Interests:** the Gift Agreement on Equity Interests will be effective, among other things, the matters relating to the gift of equity interests (including the amendments to the competition undertaking by the De Facto Controllers and the Controlling Shareholders and the execution of new non-competition agreements) have been considered and approved by the board of directors and the general meeting of the Company and the Parent Company. Upon the effective of the Gift Agreement on Equity Interests, the Company will become a shareholder of Sunshine Lake Pharma and will be benefit from Sunshine Lake Pharma's profit by way of dividend distribution (loss will not be distribute to shareholders). Unlike the investment in equity interests, if Sunshine Lake Pharma's equity interests became no value, the Group will not suffer from any loss as the Equity Interests were gift to the Company with nil consideration; and
- (vi) **conductive to the long-term business development of the Company:** pursuant to the existing non-competition agreement, the Company is entitled to the priority and option right to the related business, assets and interests of Sunshine Lake Pharma, affecting the business stability and the asset independence of Sunshine Lake Pharma, the financing and subsequent capital operation, subsequent investment in and progress of research and development and thus the Company's continued opportunity to obtain more commercialization rights for domestic pharmaceutical products, which is not conducive to the long-term business development of the Company. On the other hand, the Transactions will, in the long-run, enable Sunshine Lake Pharma to solve the problem of

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research and development fund and accelerate the research and development progress (by way of introducing strategic investors without restriction under the 2015 Non-Competition Agreement), which will further conducive to the long-term business development of the Company,

we consider that although the Transactions are not conducted in the ordinary and usual course of business of the Group, the Transactions are fair and reasonable.

2. Principal terms of the Transactions

Set out below are the key terms of the Transactions, details of which are set out under the section headed “AMENDMENTS TO THE NON-COMPETITION AGREEMENT” of the Board Letter.

2021 Non-Competition Agreement

Date: 19 March 2021

Parties:

- the Company
- HEC Pharm Co., Ltd.* (宜昌東陽光藥業股份有限公司)
- Yichang HEC Pharmaceutical Co., Ltd.* (宜昌東陽光健康藥業有限公司) (formerly known as Linzhi HEC Pharmaceutical Investment Co., Ltd.* (林芝東陽光藥業投資有限公司))
- Dongguan HEC Industrial Development Co., Ltd.* (東莞市東陽光實業發展有限公司)
- Shenzhen HEC Industrial Development Co., Ltd.* (深圳市東陽光實業發展有限公司)
- Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd.* (乳源瑤族自治縣寓能電子實業有限公司)
- Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd.* (乳源瑤族自治縣新京科技發展有限公司)
- Ms. Guo Meilan (郭梅蘭)
- Mr. Zhang Yushuai (張寓帥) (Note: The original signatory of the 2015 Non-Competition Agreement is Mr. Zhang Zhongneng (張中能). After the death of Mr. Zhang Zhongneng, his interest is succeeded by his son, Mr. Zhang Yushuai. Except for Mr. Zhang Yushuai, the signatories to the 2021 Non-Competition Agreement are the same as the signatories to the 2015 Non-Competition Agreement)

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Principal Amendments:

In view of a more specific arrangement made between the Company and Sunshine Lake Pharma in relation to the business cooperation and the entering into of a new non-competition agreement between the Company and Sunshine Lake Pharma, the 2021 Non-Competition Agreement only excluded the contents involving Sunshine Lake Pharma (as a controlled subsidiary of the Controlling Shareholders). Other terms of the 2021 Non-Competition Agreement are the same as the terms of the 2015 Non-Competition Agreement.

Having considered that (i) the reasons and benefits according to the Transactions as mentioned above; and (ii) other terms of the 2021 Non-Competition Agreement are the same as the terms of the 2015 Non-Competition Agreement, we consider the terms of the transactions contemplated under the 2021 Non-Competition Agreement are on normal commercial terms and are fair and reasonable.

Sunshine Lake Pharma Non-Competition Agreement

Date: 19 March 2021

Parties: the Company and Sunshine Lake Pharma

Subject Matters:

Scope of Non-Competition and Commitments

The Company is mainly engaged in the development, production and sales of pharmaceutical products in mainland China. Sunshine Lake Pharma is mainly engaged in the development, production and sales of pharmaceutical products outside the mainland China. The scope of non-competition is the principal business of each of the parties as of the date of entering into this agreement.

The Company and Sunshine Lake Pharma undertake and procure their respective subsidiaries:

- (1) not to directly or indirectly engage in or participate in, or assist or support any third party to engage in or participate in, either alone or with others, any business which competes or may compete, directly or indirectly, with the principal business of the counterparty and its subsidiaries in any form.
- (2) during the validity period of the Sunshine Lake Pharma Non-Competition Agreement, if each of the parties becomes aware of any relevant new business opportunity that competes or may compete, directly or indirectly, with the principal business of the counterparty, it shall give priority to offer such opportunity to the counterparty. If the counterparty decides not to accept the relevant new business opportunity for any reason, each of the parties may operate such new business opportunity itself.

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Cooperation in Sales of Pharmaceutical Products within the PRC

Since Sunshine Lake Pharma is principally engaged in businesses such as the development and production of pharmaceutical products as well as the sales of pharmaceutical products outside the PRC, it has obtained, applied for or intended to apply for (1) national pharmaceutical approval numbers for its pharmaceutical products listed overseas; and (2) new national pharmaceutical approval numbers (the aforesaid domestic pharmaceutical products under the national pharmaceutical approval numbers are collectively referred to as the “**Domestic Cooperative Products**”). In order to avoid competition with the Company and maximize the protection of the respective interests of both parties, they agreed to cooperate in the development of the Domestic Cooperative Products as follows:

- (1) Sunshine Lake Pharma shall be responsible for all research and development activities, submission of regulatory approval documents, completion of clinical trials, obtaining of pharmaceutical approval numbers and other cooperative arrangements for the Domestic Cooperative Products; Sunshine Lake Pharma shall have the right to choose to retain the relevant intellectual property rights, proprietary technologies, clinical trial approvals and pharmaceutical approval numbers for the domestic pharmaceutical products, and determine fair terms for the cooperation and transaction of the Domestic Cooperative Products through various market-based mechanisms (including in the form of negotiations with the Company, etc.) for commercialization (but the Company shall have the right not to accept such cooperation opportunities); if the Company determines to accept the cooperation opportunities, the Company may be given priority to obtain opportunities for the promotion and commercialization of the Domestic Cooperative Products within the PRC at nil consideration and cooperate and carry out transactions through the income sharing model.
- (2) The Company shall make a decision to accept the cooperation or not after receipt of the cooperation notice from Sunshine Lake Pharma. If the Company agrees to accept such domestic cooperation opportunity, it shall be responsible for all expenses in respect of promotion and commercialization of the Domestic Cooperative Products within the PRC; if the Company chooses not to accept the right to promote and commercialize one or more of the Domestic Cooperative Products within the PRC provided by Sunshine Lake Pharma (the “**Refused Products**”), it shall notify Sunshine Lake Pharma within a reasonable period after receipt of the cooperation notice, which shall be deemed as not accepted by the Company when expired. Sunshine Lake Pharma may cooperate with third parties with the Refused Products at terms (including but not limited to consideration for license, sharing ratio and term) no more favorable than those offered to the Company.
- (3) The income distribution between Sunshine Lake Pharma and the Company in respect of the Domestic Cooperative Products shall be determined by mutual agreement between the parties based on the specific conditions of the products. The income distribution is mainly based on a sales income sharing model. The

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sales income sharing ratio and term between the parties are with reference to the industry practices, and the sharing period is determined to be the later of 10 years after the commercialization of the specific projects or the expiration date of the core patents of the projects; the sales income sharing ratio is proposed to be based on factors such as the stage of the specific products, the market size of the products and the potential market share, and the sharing ratio of the specific products is determined at a ratio no higher than that of comparable cases in the market in accordance with the respective internal review procedures performed by the parties prior to the launch and sales of the products on a case-by-case basis.

- (4) Subject to the confirmation and agreement of Sunshine Lake Pharma and the Company on the cooperation in sales of the domestic pharmaceutical products (the “**Cooperated Products**”) in the manner set out in this agreement, Sunshine Lake Pharma will not carry out the sales promotion and commercialization activities of the pharmaceutical products within the PRC, therefore, it will not constitute competition given a clear business scope of the parties.

As advised by the Directors, the Domestic Cooperative Products include any approvals that Sunshine Lake Pharma has obtained, applied for or intended to apply for (1) national pharmaceutical approval numbers for its pharmaceutical products listed overseas; and (2) new national pharmaceutical approval numbers, regardless of product type, or by product brands.

As further advised by the Directors, the commercialization of the pharmaceutical preparation products through transfer of approvals or exclusive licensing is different in nature from the sales business of pharmaceutical preparation products directly conducted by the pharmaceutical companies. Specifically, the two are varied in: 1. different customer bases: the customer bases suitable for the model of product transfer and exclusive licensing are mainly other pharmaceutical companies, while the customer bases targeted by the sales of pharmaceutical preparation products are terminal healthcare institutions and patients. Therefore, the customer bases of the two are different in nature; 2. different risks and obligations assumed and gains entitled. Generally speaking, as for product transfer, after the transfer, the transferor ceases to assume risks arising from subsequent marketing and promotion, R&D and product quality, and it also needs not to pay expenses associated with subsequent marketing and promotion. As for gains entitled, gains from product transfer to external parties and exclusive licensing are mainly milestone payments and a certain percentage of subsequent licensing fees linked to product sales, while gains entitled for sales of pharmaceutical preparation products are the remaining profits calculated by selling prices of products minus relevant costs and fees (including period fees such as costs, taxes, and sales costs). Therefore, from the perspective of gains entitled, the two are also different in nature.

Based on the Non-Competition Agreements, the Company has the priority to opt to obtain the opportunity to promote and commercialize its domestic cooperative products within the PRC for nil consideration and conduct cooperation and transactions through the

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revenue-sharing model (or a fair agreement negotiated between both parties). In this case, both parties conducted business cooperation rather than inter-industry competition, and Sunshine Lake Pharma did not independently conduct inter-industry competition business with the Company in PRC. If the Company rejects to accept the cooperation, Sunshine Lake Pharma may only commercialize its domestic interest in the relevant products on terms no more favorable than those offered to the Company (including but not limited to the licensed consideration, percentage of share, and number of years).

Upon our request, the Directors confirmed that they will adopt the following measures to manage the potential competition of product sales with Sunshine Lake Pharma in the future: (i) search through the website of National Medical Products Administration (“NMPA”) and website of Center for Drug Evaluation of NMPA on a quarterly basis, where the Company is able to identify the clinical trial application being filed by Sunshine Lake Pharma or its subsidiaries or their pharmaceutical products being launched in the market; (ii) discuss with management of Sunshine Lake Pharma on a quarterly basis to understand if there will be any Domestic Cooperative Products.

As confirmed by the Directors, to ensure the proposed sales income sharing model between the Company and Sunshine Lake Pharma being in line with the then industry practice, the Company will conduct the following measures, including but not limited to (i) discuss with at least two pharmaceutical manufacturers (who are independent third parties and are engaged in the manufacturing and sale of pharmaceutical products which is similar to the Cooperated Products) in respect of their existing sales income sharing model; (ii) search through public sources (i.e. Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange, etc.) to seek if there is any public information in respect of similar sales income sharing model; or (iii) engage expert consultant to issue opinion on the fairness and reasonableness of the sales income sharing model in the event that (A) the Company fails to obtain information from (i) and (ii); or/and (B) the Company is not familiar with the treatment field of the Cooperated Products.

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As summarised in the Board Letter, the arrangement for not accepting the pre-emptive rights/relevant new business opportunity under the 2021 Non-Competition Agreement, the Sunshine Lake Pharma Non-Competition Agreement and the 2015 Non-Competition Agreement are as follows:

| The 2015 Non-Competition Agreement | The 2021 Non-Competition Agreement | The Sunshine Lake Pharma Non-Competition Agreement |
|--|---|--|
| If the Company decides not to exercise the pre-emptive rights or if the Company does not reply to the Controlling Shareholders within the agreed time period, the Controlling Shareholders is entitled to transfer, sell, lease or license the business to a third party pursuant to the terms stipulated in the written notice, by which the Controlling Shareholders notify the Company. | Same as the 2015 Non-Competition Agreement. | <p>If the counterparty decides not to accept the relevant new business opportunity for any reason, each of the parties may operate such new business opportunity itself.</p> <p>In respect of the Cooperation in Sales of Pharmaceutical Products within the PRC, if the Company chooses not to accept the right to promote and commercialize one or more of the Domestic Cooperative Products within the PRC provided by Sunshine Lake Pharma, it shall notify Sunshine Lake Pharma within a reasonable period after receipt of the cooperation notice, which shall be deemed as not accepted by the Company when expired. Sunshine Lake Pharma may cooperate with third parties with the refused products at terms (including but not limited to consideration for license, sharing ratio and term) no more favorable than those offered to the Company.</p> |

We also noted that the Company will adopt the certain corporate governance measures to ensure the compliance with the New Non-Competition Agreements. Having considered that (i) the Company will provide the independent non-executive Directors with the offer notice on the new business opportunity referred to the Company by the Controlling Shareholders and selling notice on pre-emptive rights or the cooperation notice from Sunshine Lake Pharma (as the case may be) within 7 days of receipt; and (ii) the independent non-executive Directors may engage professional advisers at the cost of the Company to advise on matters relating to the New Non-Competition Agreements, we are of the view that the effective implementation of the corporate governance measures will enable the compliance with the New Non-Competition Agreements.

We also noted that the rejection of new business opportunity or the Refused Products (the “**Rejection**”) may constitute competition between the Group and third parties (which was transferred, sold, leased or licensed the business by Controlling Shareholders/ Sunshine Lake Pharma). However, the Directors (including the independent non-executive Directors) will assess the new business opportunity or the Refused Products before making final decisions. With reference to the Board Letter, when choosing whether to accept the new business opportunity or commercialization rights of related products, the Company will assess base on the synergy of related products and the distribution of product pipeline, the existing sales network, the business focus on treatment areas, the competitive landscape of related products, and the cost structure of the Company thoroughly. If the Company chooses to give up its rights after the above assessment, it still needs to be reviewed and approved by the independent non-executive Directors before Sunshine Lake Pharma can cooperate with independent third parties. The Board is of the view that if Company chooses to give up new business opportunity or priority commercialization rights of related products (which is made after comprehensive

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consideration of the Company's sales product pipeline, the existing sales network, the business focus on treatment areas, cost-benefit and other comprehensive conditions), it indicates that the cooperation between Sunshine Lake Pharma and an independent third party on new business opportunity or priority commercialization rights of related products will have less adverse impact on the interests of small and medium shareholders as compared to the acceptance of the new business opportunity or priority commercialization rights of related products.

Having considered the following factors,

- (i) the reasons and benefits according to the Transactions as mentioned above;
- (ii) the purpose of Sunshine Lake Pharma Non-Competition Agreement is to, among other things, clearly govern the non-competition arrangements between the Group and Sunshine Lake Pharma;
- (iii) the cooperation arrangement under the Sunshine Lake Pharma Non-Competition Agreement, which will enable the Group to promote and commercialize the Domestic Cooperative Products with initial nil consideration instead of substantial cash investment (i.e. previous acquisitions); and
- (iv) if Company chooses to give up new business opportunity or priority commercialization rights of related products (which is made after comprehensive consideration of the Company's sales product pipeline, the existing sales network, the business focus on treatment areas, cost-benefit and other comprehensive conditions), it indicates that the cooperation between Sunshine Lake Pharma and an independent third party on new business opportunity or priority commercialization rights of related products will have less adverse impact on the interests of small and medium shareholders as compared to the acceptance of the new business opportunity or priority commercialization rights of related products,

we consider the terms of the transactions contemplated under the Sunshine Lake Pharma Non-Competition Agreement are on normal commercial terms and are fair and reasonable.

Gift Agreement on Equity Interests

Date: 19 March 2021

Parties:

- Shenzhen HEC Industrial Development Co., Ltd.* (深圳市東陽光實業發展有限公司) (as the grantor)
- The Company (as the grantee)

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Subject Matters:

The grantor, being an owner of equity interests in Sunshine Lake Pharma (the “**Subject Equity**”), has agreed to transfer to the grantee with, on the terms and conditions under the Gift Agreement on Equity Interests, and the grantee has agreed to accept, on such terms and conditions, the Subject Equity that is free from any encumbrance and all rights attached to it. The grantor may designate a third party to transfer the Subject Equity to the grantee, which is deemed to be a transfer of the Subject Equity from the grantor to the grantee. Upon completion of the transfer, the grantee obtains the ownership of the Subject Equity and has the right to manage, use, benefit from and dispose of the Subject Equity as well as to undertake the obligations, responsibilities and risks of the Subject Equity.

Conditions Precedent

The closing of the Subject Equity shall be conditional upon the satisfaction of the following conditions:

- (1) the approval from their respective internal approval authorities (such as the board of directors and/or the general meeting) has been obtained in accordance with the Articles of Association of the Parties and the relevant laws and regulations;
- (2) from the date of entering into the Gift Agreement on Equity Interests to the completion date (including the completion date), the representations, warranties and undertakings made by the Parties remain true, accurate and not misleading;
- (3) the matters relating to this gift of equity interests (including the amendments to the competition undertaking by the De Facto Controllers and the Controlling Shareholders and the execution of new non-competition agreements) have been considered and approved by the board of directors and the general meeting of the Company and the Parent Company;
- (4) the necessary approvals (if applicable) from external regulatory authorities relating to this gift of equity interests have been obtained.

The parties shall complete the registration procedures for transferring the Subject Equity with the competent authority as soon as possible and no later than 30 September 2021 after complete satisfaction of the aforesaid conditions and completion of this round of financing. The completion date shall be the date of the registration by the competent authority.

In particular, if Sunshine Lake Pharma applies for the initial public offering of shares on a domestic and overseas stock exchange (the “**Application for the Listing**”), the grantor shall guarantee that the proportion of equity interest in Sunshine Lake Pharma held by the grantee before the application for the initial listing of Shares of Sunshine

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Lake Pharma Listing shall not be less than 9%; if less than 9%, the grantor shall further provide a supplementary gift to the grantee until the grantee holds 10% equity interest in Sunshine Lake Pharma.

Establishment and Effectiveness of the Gift Agreement on Equity Interests

- (1) This Gift Agreement on Equity Interests is established on the date when the Parties stamp with their respective official chops and is signed by respective legal representatives (or authorized representatives).
- (2) This Gift Agreement on Equity Interests shall take effect from the date of approval by the internal approval authorities of the Parties and the Parent Company (such as the board of directors and/or the general meeting) in accordance with the Articles of Association of the Parties and the relevant laws and regulations.

Having considered that (i) the reasons and benefits according to the Transactions as mentioned above, in particular our analyses under section headed “(v) Gift Agreement on Equity Interests” above; (ii) the Subject Equity will designate to the Company at nil consideration; (iii) the Company has the right to manage, use, benefit from and dispose of the Subject Equity as well as to undertake the obligations, responsibilities and risks of the Subject Equity, we consider the terms of the transactions contemplated under the Gift Agreement on Equity Interests are on normal commercial terms and are fair and reasonable.

Based on the above, we are of the view that the terms of the Revised Non-Competition Agreements are fair and reasonable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are fair and reasonable and on normal commercial terms; and (ii) although the Transactions are not conducted in the ordinary and usual course of business of the Group, the Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transactions, and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purposes only*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

Director, supervisor and chief executive's interests and short positions in Shares and underlying Shares of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors or chief executive of the Company in the shares and underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) to be notified to the Company and the Stock Exchange were as follows:

| Name | Types of Shares | Capacity | Number of shares/ underlying shares held (shares) | Approximate percentage of relevant class of share capital (%) | Approximate percentage of total issued share capital (%) |
|--------------------|-----------------|------------------|--|--|---|
| Directors | | | | | |
| TANG Xinfu | H Shares | Beneficial owner | 130,400 (L) | 0.019% | 0.015% |
| CHEN Yangui | H Shares | Beneficial owner | 66,400 (L) | 0.010% | 0.007% |
| LI Shuang | H Shares | Beneficial owner | 66,800 (L) | 0.010% | 0.007% |
| WANG Danjin | H Shares | Beneficial owner | 67,200 (L) | 0.010% | 0.007% |
| JIANG Juncai | H Shares | Beneficial owner | 66,800 (L) | 0.010% | 0.007% |
| Supervisors | | | | | |
| WANG Shengchao | H Shares | Beneficial owner | 32,000 (L) | 0.004% | 0.003% |
| LUO Zhonghua | H Shares | Beneficial owner | 66,800 (L) | 0.010% | 0.007% |

(L) — Long position

The calculation is based on the total number of 879,967,700 shares in issue of the Company as at Latest Practicable Date, comprising 226,200,000 Domestic Shares and 653,767,700 H Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interest or short position in the shares and underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Substantial shareholders' interests

As the Directors were aware, as at the Latest Practicable Date, the interests or short positions of the persons, other than a Director, supervisor or chief executive of the Company, in the shares or underlying shares or debentures of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of the Part XV of the SFO and were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

| Name of Shareholders | Types of shares | Capacity | Number of shares/ underlying shares held (shares) | Number of underlying shares held under equity derivatives (shares) | Approximate percentage of relevant class of share capital (%) | Approximate percentage of total issued share capital (%) |
|--|-----------------|------------------------------------|---|--|---|--|
| Guangdong HEC Technology Holding Co., Ltd. | Domestic Shares | Beneficial owner | 226,200,000 (L) | — | 100% (L) | 25.70% (L) |
| | H Shares | Beneficial owner | 248,015,200 (L) | — | 37.93% (L) | 28.18% (L) |
| Shenzhen HEC Industrial Development Co., Ltd.* ² | Domestic Shares | Interest in controlled corporation | 226,200,000 (L) | — | 100% (L) | 25.70% (L) |
| | H Shares | Interest in controlled corporation | 248,015,200 (L) | — | 37.93% (L) | 28.18% (L) |
| Shaoguan Xinyuneng Industrial Investment Company Limited ² | Domestic Shares | Interest in controlled corporation | 226,200,000 (L) | — | 100% (L) | 25.70% (L) |
| | H Shares | Interest in controlled corporation | 248,015,200 (L) | — | 37.93% (L) | 28.18% (L) |
| Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. ² | Domestic Shares | Interest in controlled corporation | 226,200,000 (L) | — | 100% (L) | 25.70% (L) |
| | H Shares | Interest in controlled corporation | 248,015,200 (L) | — | 37.93% (L) | 28.18% (L) |
| Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. ² | Domestic Shares | Interest in controlled corporation | 226,200,000 (L) | — | 100% (L) | 25.70% (L) |
| | H Shares | Interest in controlled corporation | 248,015,200 (L) | — | 37.93% (L) | 28.18% (L) |
| Ms. Guo Meilan ³ | Domestic Shares | Interest in controlled corporation | 226,200,000 (L) | — | 100% (L) | 25.70% (L) |
| | H Shares | Interest in controlled corporation | 238,297,600 (L) | — | 36.44% (L) | 27.08% (L) |

| Name of Shareholders | Types of shares | Capacity | Number of shares/ underlying shares held (shares) | Number of underlying shares held under equity derivatives (shares) | Approximate percentage of relevant class of share capital (%) | Approximate percentage of total issued share capital (%) |
|--|-----------------|------------------------------------|--|---|--|---|
| Mr. Zhang Yushuai ⁴ | Domestic Shares | Interest in controlled corporation | 226,200,000 (L) | — | 100% (L) | 25.70% (L) |
| | H Shares | Interest in controlled corporation | 248,015,200 (L) | — | 37.93% (L) | 28.18% (L) |
| Ms. Hua Xiaoyi ⁵ | Domestic Shares | Interest in controlled corporation | 226,200,000 (L) | — | 100% (L) | 25.70% (L) |
| | H Shares | Interest in controlled corporation | 248,015,200 (L) | — | 37.93% (L) | 28.18% (L) |
| North & South Brother Pharmacy Investment Company Limited ⁶ | H Shares | Beneficial owner | 161,542,800 (L) | — | 24.70% (L) | 18.35% (L) |
| | H Shares | Beneficial owner | 150,000,000 (S) | — | 22.94% (S) | 17.04% (S) |
| North & South Brother Investment Holdings Limited ⁶ | H Shares | Interest in controlled corporation | 161,542,800 (L) | — | 24.70% (L) | 18.35% (L) |
| | H Shares | Interest in controlled corporation | 150,000,000 (S) | — | 22.94% (S) | 17.04% (S) |
| Mr. Mo Kit ⁶ | H Shares | Interest in controlled Corporation | 161,542,800 (L) | — | 24.70% (L) | 18.35% (L) |
| | H Shares | Interest in controlled Corporation | 150,000,000 (S) | — | 22.94% (S) | 17.04% (S) |
| Stephen A. Schwarzman ⁷ | H Shares | Interest in controlled corporation | — | 165,263,156 (L) | 25.27% (L) | 18.78% (L) |
| | | Interest in controlled corporation | — | 165,263,156 (S) | 25.27% (S) | 18.78% (S) |
| The Blackstone Group L.P. ⁷ | H Shares | Interest in controlled corporation | — | 165,263,156 (L) | 25.27% (L) | 18.78% (L) |
| | | Interest in controlled corporation | — | 165,263,156 (S) | 25.27% (S) | 18.78% (S) |
| Blackstone Dawn Pte. Ltd. ⁷ | H Shares | Beneficial owner | — | 161,957,892 (L) | 24.77% (L) | 18.40% (L) |
| | | Beneficial owner | — | 161,957,892 (S) | 24.77% (S) | 18.40% (S) |

(L) — Long position, (S) — Short position

The calculation is based on the total number of 879,967,700 shares in issue of the Company as at the Latest Practicable Date, comprising 226,200,000 Domestic Shares and 653,767,700 H Shares.

Notes:

- * Mr. Tang Xinfu is a director of Shenzhen HEC Industrial Development Co., Ltd..
1. The shareholding information of the shareholders of the Company as at the Latest Practicable Date are based on the information recorded in the register required to be kept by the Company under section 352 of the SFO.
 2. As at the Latest Practicable Date, Shenzhen HEC Industrial Development Co., Ltd. owned directly and indirectly 43.47% equity interest in Guangdong HEC Technology Holding Co., Ltd., 27.97% of which is directly owned, therefore Shenzhen HEC Industrial Development Co., Ltd. is deemed to be interested in the Shares held by Guangdong HEC Technology Holding Co., Ltd.

Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. owned 42.34% equity interest in Shenzhen HEC Industrial Development Co., Ltd. and 58.00% equity interest in Shaoguan Xinyuneng Industrial Investment Company Limited, which owned 27.00% equity interest in Shenzhen HEC Industrial Development Co., Ltd., therefore Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. is deemed to be interested in the Shares which are interested by Shenzhen HEC Industrial Development Co., Ltd.

Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. owned 30.66% equity interest in Shenzhen HEC Industrial Development Co., Ltd. and 42% equity interest in Shaoguan Xinyuneng Industrial Investment Company Limited, which owned 27.00% equity interest in Shenzhen HEC Industrial Development Co., Ltd., therefore Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. is deemed to be interested in the Shares which are interested by Shenzhen HEC Industrial Development Co., Ltd.
 3. As at the Latest Practicable Date, Ms. Guo Meilan (“**Ms. Guo**”) owned 74.63% equity interest in Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd., therefore Ms. Guo is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd..
 4. As at the Latest Practicable Date, Mr. Zhang Yushuai owned 27.58% equity interest in Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd., therefore Mr. Zhang Yushuai is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd..
 5. Ms. Hua Xiaoyi is the spouse of Mr. Zhang Yushuai and therefore is deemed to be interested in the Shares which are interested by Mr. Zhang Yushuai under the SFO.
 6. As at the Latest Practicable Date, North & South Brother Investment Holdings Limited owned 100% equity interest in North & South Brother Pharmacy Investment Company Limited and is deemed to be interested in the Shares which are interested by North & South Brother Pharmacy Investment Company Limited. Mr. Mo Kit owned 100% equity interest in North & South Brother Investment Holdings Limited and therefore, he is deemed to be interested in the Shares which are interested by North & South Brother Investment Holdings Limited.
 7. This represents the Shares to be issued upon the exercise of the conversion right attached to the H Share convertible bonds, which price being initially HK\$38 per H Share, subject to adjustment. The price is adjusted to HK\$19 per H Share due to the completion of bonus issue of Shares on 10 July 2020. Stephen A. Schwarzman through The Blackstone Group L.P. and its directly and indirectly controlled entities are deemed to be interested in the unlisted derivatives — convertible instruments in relation to 80,978,946 Shares (which are adjusted to 161,957,892 Shares due to bonus issue of Shares) held by Blackstone Dawn Pte. Ltd., in relation to 464,803 Shares (which are adjusted to 929,606 Shares due to bonus issue of Shares) held by Blackstone Dawn Holdings ESC (Cayman) Ltd. and in relation to 1,187,829 Shares (which are adjusted to 2,375,658 Shares due to bonus issue of Shares) held by BCP VII Dawn ESC (Cayman) NQ Ltd.

Save as disclosed above, as at Latest Practicable Date, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors, supervisors or chief executive of the Company) in the Shares or underlying shares of the Company which are required to be disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO, or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

3. DIRECTORSHIP AND EMPLOYMENT OF DIRECTORS AND CHIEF EXECUTIVE IN SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As of the Latest Practicable Date, save as disclosed below, none of the Directors is a director or employee of the companies which have an interest or short position in the Shares and underlying Shares of the Company.

| Name | Positions in the Company | Other interests |
|-------------------|---|--|
| Mr. TANG Xinfa | Chairman and non-executive Director of the Company | <p>Director and general manager of Shenzhen HEC Industrial Development Co., Ltd., the holding company of the Parent Company which is the controlling shareholder of the Company;</p> <p>Director of Sunshine Lake Pharma, a subsidiary of Shenzhen HEC Industrial Development Co., Ltd.;</p> <p>Director of HEC Pharm Co., Ltd., a subsidiary of Shenzhen HEC Industrial Development Co., Ltd.</p> |

4. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or supervisors of the Company nor their respective close associates had any direct or indirect interests in any businesses that constitutes or may constitute a competing business of the Company.

5. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had entered into any service contract or letter of appointment with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. DIRECTORS' AND SUPERVISORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

Due to his positions in Sunshine Lake Pharma, HEC Pharm Co., Ltd. and Shenzhen HEC Industrial Development Co., Ltd., Mr. TANG Xinfu, the chairman and non-executive Director of the Company, is deemed to be interested in the transaction contemplated under transactions under the Revised Non-Competition Agreements.

Save as disclosed above, as at the Latest Practicable Date:

- (a) none of the Directors or the supervisors of the Company had any direct or indirect interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or are proposed to be acquired, disposed of by, or leased to any member of the Group; and
- (b) none of the Directors or the supervisors of the Company was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

7. MATERIAL LITIGATION

Neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claims of material importance which is known to the Directors to be pending or threatened by or against either the Company or any of its subsidiaries as at the Latest Practicable Date.

8. QUALIFICATION OF EXPERTS AND CONSENTS

The qualifications of the experts who have given an opinion or advice in this circular are as follows:

| Name | Qualification |
|----------------------|---|
| Gram Capital Limited | a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under SFO |

As of the Latest Practicable Date, each of the experts mentioned above: (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report or opinion and the references to its names included herein in the form and context in which it is respectively included; (ii) has no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and (iii) has no direct or indirect interests in any assets which have been, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Company have been made up.

10. SERVICE CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors had a service contract with any member of the Group which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

11. GENERAL

- (a) The joint company secretaries of the Company are Mr. PENG Qiyun (彭琪雲) and Ms. NG Wing Shan (吳詠珊). Ms. Ng is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited and a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.
- (b) The registered office of the Company is No. 38 Binjiang Road, Yidu, Yichang, Hubei Province, the PRC.
- (c) The headquarter of the Company is No. 38 Binjiang Road, Yidu, Yichang, Hubei Province, the PRC.
- (d) The principal place of business in Hong Kong of the Company is 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong.
- (e) The H share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (f) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of each of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong for a period of 14 days from the date of this circular:

- (a) 2021 Non-Competition Agreement;
- (b) Sunshine Lake Pharma Non-Competition Agreement;
- (c) Gift Agreement on Equity Interests;
- (d) the Articles of Association;
- (e) the letter of recommendation from the Independent Board Committee dated 28 May 2021, the text of which is set out on page 28 of this circular;
- (f) the letter of advice from Gram Capital dated 28 May 2021, the text of which is set out on pages 29 to 50 of this circular;
- (g) the written consent of Gram Capital, which was referred to in the section headed "Qualification of Expert and Consent" in this appendix;
- (h) the annual reports of the Company for each of the three years ended 31 December 2018, 2019 and 2020; and
- (i) a copy of this circular.