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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**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)**

### **CONTINUING CONNECTED TRANSACTIONS**

#### **1. PURCHASE TRANSACTIONS**

#### **2. ENTRUSTED TRANSACTIONS**

#### **AND**

#### **CONNECTED TRANSACTION**

#### **CLARITHROMYCIN AND**

#### **AZITHROMYCIN PURCHASE TRANSACTION**

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



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A letter from the Board is set out on pages 6 to 32 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 35 to 72 of this circular and a letter from the Independent Board Committee is set out on pages 33 to 34 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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## CONTENTS

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	<i>Pages</i>
<b>DEFINITIONS .....</b>	<b>1</b>
<b>LETTER FROM THE BOARD .....</b>	<b>6</b>
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE .....</b>	<b>33</b>
<b>LETTER FROM GRAM CAPITAL .....</b>	<b>35</b>
<b>APPENDIX I — GENERAL INFORMATION .....</b>	<b>73</b>

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## DEFINITIONS

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

“Announcement”	the announcement dated 19 March 2021 made by the Company in relation to, among others, (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps)
“API Purchase Contracts”	API Purchase Contract (I), API Purchase Contract (II) and API Purchase Contract (III)
“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
“Director(s)”	the director(s) of the Company
“Dongguan Yangzhikang”	Dongguan Yangzhikang Pharmaceutical Co., Ltd.* (東莞市陽之康醫藥有限責任公司), a company incorporated in the PRC, being a direct wholly-owned subsidiary of the Company
“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
“Electricity Purchase Contracts”	Power Supply Supplemental Agreement and 2021 Power Supply Contract
“Entrusted Inspection Contracts”	Entrusted Inspection Contract (I) and Entrusted Inspection Contract (II)
“Entrusted Processing Framework Agreements”	Entrusted Processing Framework Agreement (I) and Entrusted Processing Framework Agreement (II)

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## DEFINITIONS

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“Entrusted Production/ Processing Contracts”	Entrusted Processing Framework Agreement (III), Entrusted Production Service Framework Agreement (I) and Entrusted Production Service Framework Agreement (II)
“Entrusted Production/ Processing Transactions”	transactions under the Entrusted Production/Processing Contracts
“Entrusted Transactions”	transactions under the Entrusted Inspection Contracts, the Supplemental Entrusted Sewage Treatment Agreement and the Entrusted Processing Contracts
“Group”	the Company and its subsidiaries
“Group’s connected persons” or “Counterparty(ies)”	Ruyuan HEC Pharmaceutical Co., Ltd., Yichang HEC Biochemical Manufacturing Co. Ltd., Shaoguan HEC Packaging and Printing Co., Ltd., Yichang HEC Power Plant Co., Ltd., Yidu Changjiang Machine and Equipment Co., Ltd., and Dongguan HEC Generic Drugs Development and Research Co. Ltd.
“HEC Generic Drugs Development and Research”	Dongguan HEC Generic Drugs Development and Research Co. Ltd.* (東莞市東陽光仿製藥研發有限公司), a company incorporated in the PRC, being a subsidiary of Shenzhen HEC Industrial
“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 Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and the Entrusted Transactions (including the annual caps)
“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 (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps)

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## DEFINITIONS

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“Independent Shareholders”	Shareholders other than the Parent Company, and who are not involved in, or interested in transactions under the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and the Entrusted Transactions (including the annual caps)
“Industrial Products Sale and Purchase Contracts”	Industrial Products Sale and Purchase Contract (I) and Industrial Products Sale and Purchase Contract (II)
“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
“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 Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Purchase Transactions”	transactions under the API Purchase Contracts, the Packaging Materials Purchase Contract, the Supplemental Chemical Materials and Hardware Materials Purchase Agreement, the Steam Purchase Contracts, the Electricity Purchase Contracts and the Industrial Products Sale and Purchase Contracts
“RMB”	Renminbi, the lawful currency of the PRC
“Ruyuan HEC Pharmaceutical”	Ruyuan HEC Pharmaceutical Co., Ltd.* (乳源東陽光藥業有限公司), an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial
“Sales Transactions”	transactions under the API Sales Contract and the Pharmaceutical Sales Contract
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“Shaoguan HEC Packaging”	Shaoguan HEC Packaging and Printing Co., Ltd.* (韶關東陽光包裝印刷有限公司), a company incorporated in the PRC, being a subsidiary of Shenzhen HEC Industrial
“Shares”	issued shares of the Company
“Shareholder(s)”	holder(s) of the shares in the share capital of the Company, with a nominal value of RMB1.00 each
“Shenzhen HEC Industrial”	Shenzhen HEC Industrial Development Co., Ltd.* (深圳市東陽光實業發展有限公司), a company incorporated in the PRC and directly and indirectly holds approximately 43.43% equity interest in the Parent Company as at the Latest Practicable Date, of which approximately 27.97% is directly held
“Steam Purchase Contracts”	Steam Supply Supplemental Agreement (I), Steam Supply Supplemental Agreement (II) and 2021 Steam Supply Contract
“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
“Yichang HEC Biochemical Manufacturing”	Yichang HEC Biochemical Manufacturing Co. Ltd.* (宜昌東陽光生化製藥有限公司), a company incorporated in the PRC, being a subsidiary of Shenzhen HEC Industrial
“Yichang HEC Pharmaceutical Manufacturing”	Yichang HEC Pharmaceutical Manufacturing Co., Ltd.* (宜昌東陽光製藥有限公司), a company incorporated in the PRC, being a direct wholly-owned subsidiary of the Company
“Yichang HEC Power Plant”	Yichang HEC Power Plant Co., Ltd.* (宜昌東陽光火力發電有限公司), a company incorporated in the PRC, being a subsidiary of Shenzhen HEC Industrial
“Yidu Changjiang Machine and Equipment”	Yidu Changjiang Machine and Equipment Co., Ltd.* (宜都長江機械設備有限公司), a company incorporated in the PRC, being a subsidiary of Shenzhen HEC Industrial
“%”	per cent

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## DEFINITIONS

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*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).*

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LETTER FROM THE BOARD

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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)**

**The Board of Directors:**

*Executive Directors:*

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

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

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

*Non-executive Directors:*

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

*Principal Place of Business in Hong Kong:*

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

*Independent Non-executive Directors:*

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

28 May 2021

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**1. PURCHASE TRANSACTIONS**

**2. ENTRUSTED TRANSACTIONS**

**AND**

**CONNECTED TRANSACTION**

**CLARITHROMYCIN AND**

**AZITHROMYCIN PURCHASE TRANSACTION**

**1. INTRODUCTION**

Reference is made to the Announcement in relation to (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps). The purpose of this circular is to provide you with information necessary to enable you to make an informed decision on



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## LETTER FROM THE BOARD

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whether to vote for or against the ordinary resolutions to be proposed at the EGM relating to (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps).

### CONTINUING CONNECTED TRANSACTIONS PROVIDED BY THE GROUP'S CONNECTED PERSONS TO THE GROUP

#### Purchase Transactions

##### *1. API Purchase Contract (I), API Purchase Contract (II) and API Purchase Contract (III)*

On 19 March 2021, the Group entered into the API Purchase Contracts with the Group's connected persons for the purchase of certain active pharmaceutical ingredients ("APIs").

(1) The principal terms of the API Purchase Contract (I) are as follows:

Date	: 19 March 2021
Parties	: Dongguan Yangzhikang, a direct wholly-owned subsidiary of the Company; and Ruyuan HEC Pharmaceutical
Term	: From 19 March 2021 to 31 December 2021
Nature of transaction	: Dongguan Yangzhikang agreed to purchase active pharmaceutical ingredients, such as Alogliptin Benzoate, Moxifloxacin Hydrochloride and Aripiprazole, from Ruyuan HEC Pharmaceutical.
Payment method	: Dongguan Yangzhikang will make the corresponding payment to Ruyuan HEC Pharmaceutical within one month after receiving the APIs and passing the acceptance tests and receipt of the invoice from Ruyuan HEC Pharmaceutical.

(2) The principal terms of the API Purchase Contract (II) are as follows:

On 19 March 2021, Dongguan Yangzhikang and Yichang HEC Biochemical Manufacturing entered into the API Purchase Contract (II), pursuant to which, Dongguan Yangzhikang shall purchase APIs such as Clarithromycin from Yichang HEC Biochemical Manufacturing. The principal terms of the API Purchase Contract (II), such as the term and payment method, are the same as the API Purchase Contract (I).

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## LETTER FROM THE BOARD

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(3) The principal terms of the API Purchase Contract (III) are as follows:

On 19 March 2021, the Company entered into the API Purchase Contract (III) with Ruyuan HEC Pharmaceutical, pursuant to which, the Company agreed to purchase APIs such as Alogliptin Benzoate, Escitalopram Oxalate, Aripiprazole, Linagliptin, Sitagliptin phosphate monohydrate and Rivaroxaban from Ruyuan HEC Pharmaceutical. The principal terms (such as term and payment method) of the API Purchase Contract (III) are the same as those under the API Purchase Contract (I) and the API Purchase Contract (II).

### *Pricing policy*

In selecting the API suppliers, the Company will obtain quotations from the Group's connected persons and at least two suppliers who are independent third parties. As the Company is also engaged in manufacturing of pharmaceutical products, it is well familiar with the market price of relevant APIs required for the production. The prices and terms offered by the Group's connected persons will be fair and reasonable and comparable to those offered by such independent third parties suppliers. The Directors are of the view that by requiring the Group's connected persons to offer prices and terms similar to those offered by two other independent third parties suppliers under the API Purchase Contract (I), the API Purchase Contract (II) and the API Purchase Contract (III), it can ensure that such prices and terms will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

### *Annual caps and determination basis*

The Company estimates that the annual caps for the year ending 31 December 2021 under the API Purchase Contract (I), the API Purchase Contract (II) and the API Purchase Contract (III) are RMB5,000,500, RMB19,200,000 and RMB5,099,100 respectively. In considering the annual caps for the API Purchase Contract (I), the API Purchase Contract (II) and the API Purchase Contract (III), the Directors have taken into account a number of factors, including but not limited to (1) the historical transaction amounts; (2) the estimated market demand for the year ending 31 December 2021; and (3) the Group's business development strategies.

The annual caps under the API Purchase Contract (I), API Purchase Contract (II) and API Purchase Contract (III) have been set higher than the historical transaction amounts are mainly due to several new products launched by the Company at the end of 2020 and beginning of 2021. The purchase of APIs under these contracts will be used for the manufacturing of pharmaceutical products, which (i) won the bid for the centralized procurement (the “**Centralized Procurement Products**”); (ii) were newly approved to launch (the “**New Products**”); and (iii) were notified the accepted (受理) in registration of domestic production (the “**Registration-in-progress Products**”).

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## LETTER FROM THE BOARD

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### 1. Centralized Procurement Products

The Company participated in the tender process in respect of the Second National Centralized Procurement of Pharmaceuticals (第二批國家組織藥品集中採購) and Third National Centralized Procurement of Pharmaceuticals (第三批國家組織藥品集中採購) organized by the National Organization Office for the Centralized Procurement and Usage of Pharmaceuticals\* (國家組織藥品集中採購和使用聯合採購辦公室). The Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) of Dongguan Yangzhikang and Clarithromycin Tablets (克拉霉素片) have won the bid for the centralized procurement, respectively.

The Group produced approximately 4.3 million boxes of Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) and expect the production level of Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) in 2021 will be remained similar as that in 2020 after considering that Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) won the bid for the centralized procurement in 2020.

The centralized procurement of Clarithromycin Tablets (克拉霉素片) has commenced from November 2020. The monthly average sale of Clarithromycin Tablets (克拉霉素片) during the period from November 2020 to March 2021 (i.e. the commencement of centralized procurement) represented approximately 3.5 times to the monthly average sale during the period from June 2020 to October 2020 (i.e. before centralized procurement). The Company also estimated monthly sale of Clarithromycin Tablets (克拉霉素片) from April 2021 to December 2021 was in accordance with the sale in November 2020, which was recorded the highest in monthly sale. In order to deliver Clarithromycin Tablets (克拉霉素片) in a timely manner, the Group will produce certain amount of Clarithromycin Tablets (克拉霉素片) in advance as inventory. The estimated production volume represented approximately 1.4 times to the estimated sales volume of Clarithromycin Tablets (克拉霉素片) for 2021. The Group produced approximately 4.4 million boxes of Clarithromycin Tablets (克拉霉素片) and sold approximately 3.6 million boxes of Clarithromycin Tablets (克拉霉素片), the production volume represented approximately 1.2 times of the sales volume during 2020.

### 2. New Products and Registration-in-progress Products

The estimated purchase of APIs for manufacturing the New Products and Registration-in-progress Products for the year ending 31 December 2021 accounted for approximately 24% to the total estimated demand of materials for pharmaceutical products for the 2021. The approval of Registration-in-progress Products is expected to be obtained by the Company in 2021.

In view of the above, the increase in estimate purchase of APIs are for manufacturing of the Centralized Procurement Products, the New Products and the Registration-in-progress Products.

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## LETTER FROM THE BOARD

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### *Historical transaction amounts*

The historical transaction amounts for the purchase of APIs from the Group's connected person(s) of the Group for each of the three years ended 31 December 2018, 2019 and 2020 are set out below:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Historical transaction amounts for APIs purchase transactions	<u>0</u>	<u>1,729.24</u>	<u>6,154.42</u>

### *Reasons for the transaction*

Historically, the Group purchased certain APIs from the Group's connected persons for the production of drugs. The Group's connected persons are one of the largest suppliers in the relevant API market. As such, the Group believes that the quality of the APIs provided by the Group's connected persons is no less favourable than those offered by other third party suppliers. Besides, it is commercially desirable for us to continue to purchase APIs from the Group's connected persons due to the facts that (i) their locations are adjacent to the Group, which is more convenient for the transportation of APIs; and (ii) the price and terms offered by them are fair and reasonable and no less favourable than those offered by independent third parties suppliers.

## **2. Packaging Materials Purchase Contract**

On 19 March 2021, the Company entered into the Packaging Materials Purchase Contract in relation to the purchase of printed packaging materials from Shaoguan HEC Packaging. The principal terms of the Packaging Materials Purchase Contract are as follows:

Date	: 19 March 2021
Parties	: the Company; and Shaoguan HEC Packaging
Term	: From 19 March 2021 to 31 December 2021
Nature of transaction	: The Company agreed to purchase printed packaging materials from Shaoguan HEC Packaging.
Payment method	: The Company will pay Shaoguan HEC Packaging on a monthly basis and within 30 days upon receipt of the invoice from Shaoguan HEC Packaging.

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## LETTER FROM THE BOARD

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### *Pricing policy*

When selecting suppliers of packaging materials, the Company will obtain quotations from the Group's connected persons and at least two independent third parties suppliers. The prices and terms offered by the Group's connected persons will be fair and reasonable and comparable to those offered by such independent third parties suppliers. The Directors are of the view that by requiring the Group's connected persons to offer prices and terms similar to those offered by two other independent third parties suppliers under the Packaging Materials Purchase Contract, it can ensure that such prices and terms will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

### *Annual caps and determination basis*

The Company estimates that the annual caps under the Packaging Materials Purchase Contract for the year ending 31 December 2021 is RMB16,150,000. In considering the annual cap for the Packaging Materials Purchase Contract, the Directors have taken into account a number of factors, including but not limited to (1) the historical transaction amounts; (2) the estimated demand for the year ending 31 December 2021; and (3) expected increase in transaction amounts in the future due to the Group's business development.

### *Historical transaction amounts*

The historical transaction amounts for the purchase of printed packaging materials from the Group's connected person(s) of the Group for each of the three years ended 31 December 2018, 2019 and 2020 are set out below:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Historical transaction amounts for printed packaging materials purchase transactions	<u>18,955.16</u>	<u>18,955.16</u>	<u>18,916.22</u>

### *Reasons for the transaction*

Historically, the Company purchased packaging materials from the Group's connected persons for packaging our drugs, and therefore they are familiar with our requirements for such materials. In addition, with better understanding of the Company's business and communication in a more efficient and effective manner, the Group's connected persons are able to complete the Company's purchase orders more efficiently.

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## LETTER FROM THE BOARD

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### 3. *Supplemental Chemical Materials and Hardware Materials Purchase Agreement*

On 19 March 2021, the Company and Yichang HEC Biochemical Manufacturing entered into the Supplemental Chemical Materials and Hardware Materials Purchase Agreement of the 2018–2020 Framework Packaging and Chemical Materials Purchase Agreement dated 22 December 2017 on the extension of the terms under the 2018–2020 Framework Packaging and Chemical Materials Purchase Agreement. The principal terms of the Supplemental Chemical Materials and Hardware Materials Purchase Agreement are as follows:

Date	:	19 March 2021
Parties	:	the Company; and Yichang HEC Biochemical Manufacturing
Term	:	From 19 March 2021 to 31 December 2021
Nature of transaction	:	The Company agreed to purchase chemical materials and hardware materials from Yichang HEC Biochemical Manufacturing
Payment method	:	The Company will pay Yichang HEC Biochemical Manufacturing on a monthly basis and within 30 days upon receipt of the invoice from Yichang HEC Biochemical Manufacturing.

#### *Pricing policy*

When selecting suppliers of chemical materials and hardware materials, the Company will obtain quotations from the Group's connected persons and at least two independent third parties suppliers. The prices and terms offered by the Group's connected persons will be fair and reasonable and comparable to those offered by such independent third parties suppliers. The Directors are of the view that by requiring the Group's connected persons to offer prices and terms similar to those offered by two other independent third parties suppliers under the Supplemental Chemical Materials and Hardware Materials Purchase Agreement, it can ensure that such prices and terms will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

#### *Annual caps and determination basis*

The Company estimates that the annual caps for the year ending 31 December 2021 under the Supplemental Chemical Materials and Hardware Materials Purchase Agreement is RMB8,000,000. In considering the annual caps for the Supplemental Chemical Materials and Hardware Materials Purchase Agreement, the Directors have taken into account a number of factors, including but not limited to (1) the historical transaction amounts; (2) the estimated production for the year ending 31 December 2021; and (3) the Group's business development.

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## LETTER FROM THE BOARD

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The annual caps under Supplemental Chemical Materials and Hardware Materials Purchase Agreement have been set higher than the historical transaction amount mainly due to (i) the expectation on sales volume of the Group's core product, Kewei, to be gradually resumed in 2021; and (ii) multiple products, such as Emitasvir Phosphate Capsules (磷酸依米他韋膠囊) and Recombinant Human Insulin Injection (重組人胰島素注射液) of the Group had been approved for launch in end of 2020 and beginning of 2021 that will require increase amount of chemical materials and hardware materials for drugs packaging and production.

### *Historical transaction amounts*

The historical transaction amounts for the purchase of chemical materials and hardware materials from the Group's connected person(s) of the Group for each of the three years ended 31 December 2018, 2019 and 2020 are set out below:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000
Historical transaction amounts for chemical materials and hardware materials purchase transactions	<u>6,628.16</u>	<u>5,012.16</u>	<u>5,443.84</u>

### *Reasons for the transaction*

Historically, the Company purchased chemical materials and hardware materials from Yichang HEC Biochemical Manufacturing for drugs packaging and production, and therefore they are familiar with our requirements for such materials. In addition, with better understanding of the Company's business and communication in a more efficient and effective manner, Yichang HEC Biochemical Manufacturing is able to complete the Company's purchase orders more efficiently.

#### **4. Steam Supply Supplemental Agreement (I), Steam Supply Supplemental Agreement (II) and 2021 Steam Supply Contract**

- (1) On 19 March 2021, the Company and Yichang HEC Power Plant entered into the Steam Supply Supplemental Agreement (I) to 2018–2020 Framework Energy Procurement Agreement dated 22 December 2017 on extension of terms under 2018–2020 Framework Energy Purchase Agreement. The principal terms of the Steam Supply Supplemental Agreement (I) are as follows:

Date : 19 March 2021

Parties : the Company; and

Yichang HEC Power Plant



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## LETTER FROM THE BOARD

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- Term : From 19 March 2021 to 31 December 2021
- Nature of transaction : The Company agreed to purchase steam from Yichang HEC Power Plant
- Payment method : The payment for steam is payable on a monthly basis. The Company shall pay a monthly fee to Yichang HEC Power Plant in accordance with the settlement amount agreed in the Steam Supply Supplemental Agreement (I) (including the monthly measured steam volume and heat loss steam volume as shown on the steam meter or the agreed amount under the Steam Supply Supplemental Agreement (I))
- (2) On 19 March 2021, the Company and Yichang HEC Biochemical Manufacturing entered into the Steam Supply Supplemental Agreement (II) to 2018–2020 Framework Energy Procurement Agreement dated 22 December 2017 on extension of terms under 2018–2020 Framework Energy Purchase Agreement. The terms (such as term and payment method) of the Steam Supply Supplemental Agreement (II) are the same as those under the Steam Supply Supplemental Agreement (I).
- (3) On 19 March 2021, Yichang HEC Pharmaceutical Manufacturing (a subsidiary of the Company) and Yichang HEC Power Plant entered into the 2021 Steam Supply Contract. The principal terms of the 2021 Steam Supply Contract are as follows:
- Date : 19 March 2021
- Parties : Yichang HEC Pharmaceutical Manufacturing; and  
Yichang HEC Power Plant
- Term : From 19 March 2021 to 31 December 2021
- Nature of transaction : Yichang HEC Pharmaceutical Manufacturing agreed to purchase steam from Yichang HEC Power Plant
- Payment method : The payment for steam is payable on a monthly basis. Yichang HEC Pharmaceutical Manufacturing shall pay a monthly fee to Yichang HEC Power Plant in accordance with the settlement amount agreed in the 2021 Steam Supply Contract (including the monthly measured steam volume and heat loss steam volume as shown on the steam meter or the agreed amount under the 2021 Steam Supply Contract)



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## LETTER FROM THE BOARD

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### *Pricing policy*

The price of steam to be charged under the Steam Supply Supplemental Agreement (I), the Steam Supply Supplemental Agreement (II) and the 2021 Steam Supply Contract is determined with reference to the approval of the price of steam in the direct supply area of Yichang HEC Power Plant by the Yichang Municipal Price Bureau. The price of steam charged under the Steam Supply Supplemental Agreement (I), the Steam Supply Supplemental Agreement (II) and the 2021 Steam Supply Contract is determined with reference to the heat supply price from the same type of enterprise in the heat supply price list issued by Yichang Municipal Price Bureau.

### *Annual caps and basis of annual caps*

The Company estimates that the annual caps under the Steam Supply Supplemental Agreement (I), the Steam Supply Supplemental Agreement (II) and the 2021 Steam Supply Contract for the year ending 31 December 2021 are RMB9,000,000, RMB9,000,000 and RMB4,200,000 respectively. In considering the annual caps for the Steam Supply Supplemental Agreement (I), the Steam Supply Supplemental Agreement (II) and the 2021 Steam Supply Contract, the Directors have taken into account a number of factors, including but not limited to (1) the historical transaction amounts; (2) the Group's estimated production for the year ending 31 December 2021; and (3) the Group's business development.

The annual caps under (i) Steam Supply Supplemental Agreement (I), Steam Supply Supplemental Agreement (II) and 2021 Steam Supply Contract; and (ii) Power Supply Supplemental Agreement and 2021 Power Supply Contract have been set higher than the historical transaction amount are mainly due to:

- (1) the commencement of production of the new insulin production plant located in Yidu Base Area No. 3 in 2021 with designed production capacity of (i) 500 million tablets of tablets; (ii) 1,000 million packets of granules; and (iii) 300 million pieces of capsules per annum, representing a substantial increase in designed production capacity of current insulin production plan; and
- (2) the entrust of Yidu Construction to provide civil engineering construction services for the synthesis workshop, machine repair workshop, hazardous waste warehouse, class A warehouse, class C warehouse, guard room, storage tank area, hydrogenation workshop, etc. in the phase I HEC project of innovative drugs and generic drugs are expected to carry on trial production 2021.

In view of the above, the increase in estimated demand of steam and electricity are for the increase in abovementioned production capacity and proposed mass production of newly launched products in for the year ending 31 December 2021.

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## LETTER FROM THE BOARD

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### *Historical transaction amounts*

The historical transaction amounts for the purchase of steam from the Group's connected person(s) of the Group for each of the three years ended 31 December 2018, 2019 and 2020 are set out below:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Historical transaction amounts for steam purchase transactions	<u>6,330.96</u>	<u>10,188.50</u>	<u>10,000.84</u>

### *Reasons for the transaction*

Historically, the Group purchased steam from the Group's connected persons for the daily production of pharmaceutical preparations. The Group does not own any boilers for steam production. As the power plant of the Group's connected persons is close to the production facilities of the Group, it is commercially desirable to continue to purchase steam from them.

### **5. Power Supply Supplemental Agreement and 2021 Power Supply Contract**

- (1) On 19 March 2021, the Company and Yichang HEC Power Plant entered into the Power Supply Supplemental Agreement to the 2018–2020 Framework Energy Procurement Agreement dated 22 December 2017 on extension of the terms under 2018–2020 Framework Energy Purchase Agreement. The principal terms of the Power Supply Supplemental Agreement are as follows:

Date	: 19 March 2021
Parties	: the Company; and Yichang HEC Power Plant
Term	: From 19 March 2021 to 31 December 2021
Nature of transaction	: The Company agreed to purchase electricity from Yichang HEC Power Plant
Payment method	: The electricity fee is charged on a monthly basis and the Company shall pay the relevant amount before the end of the month after receiving the invoice from Yichang HEC Power Plant

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## LETTER FROM THE BOARD

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- (2) On 19 March 2021, Yichang HEC Pharmaceutical Manufacturing and Yichang HEC Power Plant entered into the 2021 Power Supply Contract. The principal terms of the 2021 Power Supply Contract are as follows:

Date	:	19 March 2021
Parties	:	Yichang HEC Pharmaceutical Manufacturing (a subsidiary of the Company); and Yichang HEC Power Plant
Term	:	From 19 March 2021 to 31 December 2021
Nature of transaction	:	Yichang HEC Pharmaceutical Manufacturing agreed to purchase electricity from Yichang HEC Power Plant
Payment method	:	The electricity fee is payable on a monthly basis, which shall be paid by Yichang HEC Pharmaceutical Manufacturing before the end of the month upon receipt of the invoice issued by Yichang HEC Power Plant

### *Pricing policy*

The electricity fees charged under the Power Supply Supplemental Agreement and the 2021 Power Supply Contract are determined with reference to the on-grid tariff of RMB0.4161/kWh offered by Yichang HEC Power Plant, which was approved by the Provincial Price Bureau in the notice of reasonably adjustment of the electricity tariff structure pursuant to Hubei Provincial Price Bureau (E Jia Huan Zi [2017] No. 92) (鄂價環資[2017]92號文) and the approval of Yichang Municipal Price Bureau (Yi Dong Dian [2011] No. 1) (宜東電[2011]1號文) stipulates the power supply tariff in the direct supply zone shall not lower than 80% of the on-grid tariff in Hubei Province in the same period and not higher than the principle on-grid tariff of Hubei Province in the same period, and is subject to an agreed pricing of RMB0.3329/kWh throughout the year.

### *Annual caps and basis of annual caps*

The Company estimates that the annual caps for the year ending 31 December 2021 under the Power Supply Supplemental Agreement and the 2021 Power Supply Contract are RMB30,300,000 and RMB3,200,000 respectively. In considering the annual caps of the Power Supply Supplemental Agreement and the 2021 Power Supply Contract, the Directors have taken into account a number of factors, including but not limited to (1) the historical transaction amounts; (2) the Group's estimated production for the year ending 31 December 2021; and (3) the Group's business development.

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## LETTER FROM THE BOARD

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### *Historical transaction amounts*

The historical transaction amounts for the purchase of electricity from connected person(s) of the Group for each of the three years ended 31 December 2018, 2019 and 2020 are set out below:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Historical transaction amounts for electricity purchase transactions	<u>8,471.33</u>	<u>9,739.55</u>	<u>12,395.47</u>

### *Reasons for the transaction*

Historically, the Group purchased electricity from the Group's connected persons for the daily production of pharmaceutical preparations. The Group does not own any power plant to generate electricity. It is commercially desirable to continue to purchase electricity from the Group's connected persons as the power plant is close to the Company's production facilities.

### **6. Industrial Products Sale and Purchase Contract (I) and Industrial Products Sale and Purchase Contract (II)**

On 19 March 2021, the Group entered into certain Industrial Products Sale and Purchase Contracts with the Group's connected persons.

- (1) The principal terms of the Industrial Products Sale and Purchase Contract (I) are as follows:

Date	: 19 March 2021
Parties	: Yichang HEC Pharmaceutical Manufacturing (a subsidiary of the Company); and Yidu Changjiang Machine and Equipment
Term	: From 19 March 2021 to 31 December 2021
Nature of transaction	: Yichang HEC Pharmaceutical Manufacturing agreed to purchase of tank field and workshop renovation equipment from Yidu Changjiang Machine and Equipment

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## LETTER FROM THE BOARD

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Payment method : Yichang HEC Pharmaceutical Manufacturing will settle the payment to Yidu Changjiang Machine and Equipment upon receipt of the tank field and for workshop equipment and invoice to be issued by Yidu Changjiang Machine and Equipment and after examination and acceptance thereof.

- (2) The principal terms of the Industrial Products Sale and Purchase Contract (II) are as follows:

On 19 March 2021, the Company entered into the Industrial Products Sale and Purchase Contract (II) with Yidu Changjiang Machine and Equipment. Accordingly, the Company agreed to purchase workshop renovation equipment from Yidu Changjiang Machine and Equipment. The Industrial Products Sale and Purchase Contract (II) (such as term and payment method) are the same as those under the Industrial Products Sale and Purchase Contract (I).

### *Pricing policy*

The price, charged by Yidu Changjiang Machine and Equipment to the Group for the purchase of equipment, adopts a “cost-plus” mechanism in which a range of 10%–15% of the profit is charged.

### *Annual caps and basis of annual caps*

The Company estimates that the annual caps for the year ending 31 December 2021 under the Industrial Products Sale and Purchase Contract (I) and the Industrial Products Sale and Purchase Contract (II) are RMB11,000,000 and RMB7,000,000 respectively. In considering the annual caps of the Industrial Products Sale and Purchase Contract (I) and the Industrial Products Sale and Purchase Contract (II), the Directors have taken into account various factors, including the business development of the Group, the depreciation rate of the workshop equipment and the estimated total number of equipment required to be purchased in 2021 as estimated by the heads of plants of the Company multiplied by the unit price of the equipment.

The historical total transaction amounts in respect of the industrial products purchase transactions by the Group from the connected persons of the Group for each of the three years ended 31 December 2018, 2019 and 2020 are set out below:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Historical total transaction amounts of the industrial products purchase transactions	<u>6,239.21</u>	<u>4,517.95</u>	<u>16,088.17</u>

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## LETTER FROM THE BOARD

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### *Reasons for the transaction*

The Group needs to purchase equipment necessary for workshop renovation to carry out its business. Specialized in production of equipment, Yidu Changjiang Machine and Equipment is familiar with the business and operation requirements of the Group, and maintains a good long-term cooperative relationship with the Group, which can provide the Group with the necessary equipment stably. Therefore, the Board believes that the Group purchases equipment from Yidu Changjiang Machine and Equipment is beneficial to the steady development of the Group's business.

### *Reasons for the Purchase Transactions*

The Directors (excluding the members of the Independent Board Committee who will express their view after considering the advice from the Independent Financial Adviser) consider that the Purchase Transactions are on ordinary and normal commercial terms, and the terms of the API Purchase Contracts, the Packaging Materials Purchase Contract, the Supplemental Chemical Materials and Hardware Materials Purchase Agreement, the Steam Purchase Contracts, the Electricity Purchase Contracts and the Industrial Products Sale and Purchase Contracts are fair and reasonable and in the interests of the Company and Shareholder(s) as a whole.

## **Entrusted Transactions**

### ***1. Entrusted Inspection Contract (I) and Entrusted Inspection Contract (II)***

On 19 March 2021, the Group has entered into certain Entrusted Inspection Contracts in relation to the entrustment of the Group's connected persons for inspection services.

(1) The principal terms of the Entrusted Inspection Contract (I) are as follows:

Date	:	19 March 2021
Parties	:	the Company; and Ruyuan HEC Pharmaceutical
Term	:	From 19 March 2021 to 31 December 2021
Nature of transaction	:	The Company agreed to engage Ruyuan HEC Pharmaceutical to conduct a quality control inspection on the talcum powder.
Payment method	:	The Company will pay the relevant fees to Ruyuan HEC Pharmaceutical after receiving the inspection report or the test report in December of each year.

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## LETTER FROM THE BOARD

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(2) The principal terms of the Entrusted Inspection Contract (II) are as follows:

On 19 March 2021, the Company entered into the Entrusted Inspection Contract (II) with HEC Generic Drugs Development and Research. Accordingly, the Company commissioned HEC Generic Drugs Development and Research to conduct testing on the compatibility of injection packaging materials, production component compatibility, drug device compatibility, closure integrity research and analysis of excessive impurities structure during the stability process. In addition to the fact that the Company is required to make relevant payments to HEC Generic Drugs Development and Research within one week after receiving the research report from HEC Generic Drugs Development and Research, the Entrusted Inspection Contract (II) is consistent with the Entrusted Inspection Contract (I).

### *Pricing policy*

The Group's connected persons adopt a "cost-plus" mechanism for charging inspection fees to the Company, i.e. it charges a profit ranging from 10% to 15%.

### *Annual caps and basis of annual caps*

The Company estimates the annual caps under the Entrusted Inspection Contract (I) and the Entrusted Inspection Contract (II) for the year ending 31 December 2021 are RMB2,300,000 and RMB1,500,000, respectively. In considering the annual caps under the Entrusted Inspection Contract (I) and the Entrusted Inspection Contract (II), the Directors have taken into account a number of factors, including (1) the Group's production for the year ending 31 December 2021; (2) the Group's business development strategies; and (3) fair and reasonable market prices and normal commercial terms, which are not higher than the fees charged by third parties for similar services.

### *Reasons for the transaction*

The Group conducts entrusted inspection business due to the needs of business. Engaged in the inspection, Ruyuan HEC Pharmaceutical and HEC Generic Drugs Development and Research are familiar with the Group's business and operational needs, and maintain good cooperation relationship with the Group, which can provide the necessary inspection services for the business development of the Group, the Board therefore is of the view that the entering into of the Entrusted Inspection Contracts between the Group and the Group's connected persons is beneficial to the steady development of the Group's business.

## **2. Supplemental Entrusted Sewage Treatment Agreement**

On 19 March 2021, the Company and Yichang HEC Biochemical Manufacturing entered into the Supplemental Entrusted Sewage Treatment Agreement in relation to 2017 Entrusted Sewage Treatment Agreement dated 24 February 2017 on extension of the terms under the

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## LETTER FROM THE BOARD

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2017 Entrusted Sewage Treatment Agreement. The principal terms of the Supplemental Entrusted Sewage Treatment Agreement are as follows:

Date	:	19 March 2021
Parties	:	the Company; and Yichang HEC Biochemical Manufacturing
Term	:	From 19 March 2021 to 31 December 2021
Nature of transaction	:	The Company agreed to engage Yichang HEC Biochemical Manufacturing for the treatment of sewage generated during the Company's production process.
Payment method	:	Settlement at the end of each month and payment of the relevant fees to Yichang HEC Biochemical Manufacturing

### *Pricing Policy*

Yichang HEC Biochemical Manufacturing adopts a "cost-plus" mechanism for charging entrusted sewage treatment fees (such as staff costs, electricity charges, equipment, site, sewage treatment related raw materials, etc.), i.e. it charges a profit ranging from 10% to 15%.

### *Annual cap and basis of annual cap*

The Company estimates that the annual cap under the Supplemental Entrusted Sewage Treatment Agreement for the year ending 31 December 2021 is RMB3,600,000. In considering the annual caps under the Supplemental Entrusted Sewage Treatment Agreement, the Directors have taken into account a number of factors, including (1) the historical transaction amounts; (2) the Group's demand for the year ending 31 December 2021; and (3) the Group's business development strategies.

### *Historical transaction amounts*

The historical transaction amounts for sewage treatment services from the Group's connected person(s) of the Group for each of the three years ended 31 December 2018, 2019 and 2020 are set out below:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Historical transaction amounts for the transactions of entrusted sewage treatment services	<u>2,578.84</u>	<u>3,692.78</u>	<u>4,778.76</u>



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## LETTER FROM THE BOARD

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### *Reasons for the transaction*

The Group previously engaged the Group's connected persons to provide liquid waste processing services in relation to its API production facility of Yidu Base Area No. 2. The liquid waste processing facilities of the Group's connected persons has been put into operation since 2006. As the Group's API manufacturing facilities are located close to the Group's connected persons' liquid waste processing facilities, it is commercially desirable to continue to engage the Group's connected persons to provide such service.

### **3. *Entrusted Processing Framework Agreement (I) and Entrusted Processing Framework Agreement (II)***

On 19 March 2021, the Group entered into certain Entrusted Processing Framework Agreements in relation to the engagement of the Group's connected persons for the provision of pharmaceutical processing services.

- (1) The principal terms of the Entrusted Processing Framework Agreement (I) are as follows:

Date	:	19 March 2021
Parties	:	the Company; and Sunshine Lake Pharma
Term	:	From 19 March 2021 to 31 December 2021
Nature of transaction	:	The Company agreed to engage Sunshine Lake Pharma to process certain pharmaceutical products, including Clarithromycin Tablets, Levofloxacin Tablets, Moxifloxacin Hydrochloride Tablets, Olmesartan Tablets, Alogliptin Benzoate Tablets, Duloxetine Hydrochloride Enteric-coated Capsules, Aripiprazole Tablet, Febuxostat Tablets, Tadalafil Tablets, Ticagrelor Tablets, Olanzapine Tablets, Rosuvastatin Calcium Tablets, Linagliptin Tablets, Sitagliptin Tablets and Entacapone Tablets
Payment method	:	The Company will pay the relevant amount within 30 days after it receives the processed pharmaceutical products and pass the inspection. The holder of the certificates of registration of pharmaceutical products for some of the Group's products is Dongguan Yangzhikang, and such products are intended to be sold through Dongguan Yangzhikang, therefore Dongguan Yangzhikang will pay part of the relevant processing service fees to Sunshine Lake Pharma. Sunshine Lake Pharma shall issue invoices to Dongguan Yangzhikang

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## LETTER FROM THE BOARD

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- (2) The principal terms of the Entrusted Processing Framework Agreement (II) are as follows:

On 19 March 2021, the Company entered into the Entrusted Processing Framework Agreement (II) with Ruyuan HEC Pharmaceutical. Accordingly, the Company agreed to engage Ruyuan HEC Pharmaceutical to process the Rongliflozin API. The principal terms of the Entrusted Processing Framework Agreement (II) (such as the term and payment method) are the same as those under the Entrusted Processing Framework Agreement (I).

### *Pricing Policy*

A “cost-plus” mechanism is adopted for the price of the processing fee payable by Group to the Group’s connected persons. In addition to the necessary costs and expenses incurred for the processing services, the Group’s connected persons charges the Group an additional fee within approximately 10% of the processing fee.

### *Annual caps and basis of annual caps*

The Company estimates that the annual caps under the Entrusted Processing Framework Agreement (I) and the Entrusted Processing Framework Agreement (II) for the year ending 31 December 2021 are RMB105,280,000 and RMB25,050,700, respectively. In considering the annual caps under the Entrusted Processing Framework Agreement (I) and the Entrusted Processing Framework Agreement (II), the Directors have taken into account a number of factors, including (1) the historical transaction amounts; (2) increasing demand due to successful bidding under centralized volume-based drug procurement; and (3) the Group’s business development strategies.

The annual caps under Entrusted Processing Framework Agreement (I) and Entrusted Processing Framework Agreement (II) have been set higher than the historical transaction amount were mainly due to the estimated increase in sales volume of pharmaceutical products as results of winning bid of centralized procurement and newly launched pharmaceutical products in 2021.

The Company’s Moxifloxacin Hydrochloride Tablet (鹽酸莫西沙星片), Clarithromycin Tablets (克拉霉素片), Olmesartan Medoxomil Tablets (奧美沙坦酯片), Levofloxacin Tablets (左氧氟沙星片) and Duloxetine Hydrochloride Enteric-coated Capsules (鹽酸度洛西汀腸溶膠囊) won the bid of centralized procurement in January 2020, August 2020 and February 2021.

The estimated volume of pharmaceutical products which will be produced under the entrusted processing services was determined based on, among other things, the fact that the Group is required to produce sufficient amounts for centralized procurement purpose, otherwise the Group will be removed from the centralized procurement and forbidden to participate in certain years. The estimated entrusted processing amounts for these pharmaceutical products was calculated by the estimated volume times their respective cost.

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## LETTER FROM THE BOARD

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The estimated entrusted processing amount for newly approved pharmaceutical products or products expected to be launched accounted for approximately 31% to the total estimated amounts of entrusted processing services for 2021 under the Entrusted Processing Framework Agreement (I) was determined based on, among other things, the sales target of the Company's sales team. The estimated entrusted processing amounts for newly approved pharmaceutical products or products expected to be launched accounted was calculated by the estimated volume times their respective cost.

The entrust processing of Rongliflozin L-Pyroglutamic Acid under the Entrusted Processing Framework Agreement (II) is in the progress of Phase III clinical trial study, which is expected to be completed in June 2022. The process of the Rongliflozin (榮格列淨) API is mainly for the purpose of Phase III clinical trial study and other requirement for the obtaining drug licenses and commencing commercial production.

In view of the above, the increase in entrusted processing amount are for the increase in abovementioned sales volume of pharmaceutical products as results of winning bid of centralized procurement and newly launched pharmaceutical products.

The historical transaction amounts in respect of the Entrusted Processing Transactions paid by the Group to the Group's connected persons for each of the three years ended 31 December 2018, 2019 and 2020 are set out below:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Historical transaction amounts of the Entrusted Processing Transactions	<u>0</u>	<u>0</u>	<u>71,222.92</u>

### *Reasons for the transaction*

As the approval holder of the drugs subject to entrusted processing is the Group's connected persons, which is not qualified for manufacturing of drugs under the Good Manufacturing Practice (GMP) mentioned above. The Group's connected persons have passed the GMP certification in a number of countries for many times and thus have the conditions and capacities for manufacturing the abovementioned generic drugs. As such, the Group's connected persons were entrusted to manufacture the drugs under the Entrusted Processing Framework Agreements.

### *Reasons for the Entrusted Transactions*

The Directors (excluding the members of the Independent Board Committee who will express their view after considering the advice from the Independent Financial Adviser) consider that the Entrusted Transactions are on ordinary and normal commercial terms,

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## LETTER FROM THE BOARD

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and the terms of the Entrusted Inspection Contracts, the Supplemental Entrusted Sewage Treatment Agreement and the Entrusted Processing Framework Agreements are fair and reasonable and in the interests of the Company and Shareholder(s) as a whole.

### **CONNECTED TRANSACTION PROVIDED BY THE GROUP'S CONNECTED PERSONS TO THE GROUP**

#### **1. Clarithromycin and Azithromycin Purchase Transaction under API Purchase Contract (IV)**

On 19 March 2021, the Company entered into the API Purchase Contract (IV) in relation to the purchase of pharmaceutical products from Yichang HEC Biochemical Manufacturing. The principal terms of the API Purchase Contract (IV) are as follows:

Date	:	19 March 2021
Parties	:	the Company; and Yichang HEC Biochemical Manufacturing
Nature of transaction	:	The Company agreed to purchase APIs (Clarithromycin and Azithromycin) from Yichang HEC Biochemical Manufacturing
Consideration	:	RMB3,000,000
Payment method	:	Yichang HEC Biochemical Manufacturing is required to deliver the APIs to the Company within 30 days after entering into the API Purchase Contract (IV). The Company will pay the relevant amount upon receipt of the APIs and receipt of the invoice from Yichang HEC Biochemical Manufacturing after passing the acceptance inspection.
Basis of Consideration	:	Antibiotics-type APIs are subject to volatile market prices, with reference to the fair price offered by Yichang HEC Biochemical Manufacturing to the market, which is determined after arm's length negotiations between parties to ensure that such price is equal to the market price.

The purchase price of (i) Clarithromycin was determined with reference to the average domestic sales price offered by Yichang HEC Biochemical Manufacturing of RMB1,267.44/kg (including tax) and the final purchase price agreed by both parties is RMB1,200/kg; and (ii) Azithromycin was determined with reference to the average domestic sales price offered by Yichang HEC Biochemical Manufacturing of RMB785.51/kg (including tax) and the final purchase price agreed by both parties is RMB750/kg.

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## LETTER FROM THE BOARD

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### *Reasons for the transaction*

In accordance with the market requirements for Clarithromycin tablets and Azithromycin tablets, the Company purchased APIs as needed to ensure the normal engagement of the Company's production and commercial activities. Yichang HEC Biochemical Manufacturing is familiar with the business needs of the Company, which helps to save administrative expenses, and provides APIs (Clarithromycin and Azithromycin) with guaranteed quality and facilitates the tracking management of drugs. It is beneficial to win the trust of the Company's products from the market and has a positive impact on the market promotion.

The Directors (including the independent non-executive Directors) are of the view that the terms of the API Purchase Contract (IV) are fair and reasonable and the transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Company, and on normal commercial terms or better to the Company and the API Purchase Contract (IV) is in the interests of the Company and Shareholder(s) as a whole.

As at the Latest Practicable Date, each of the Purchase Transaction, Entrusted Transaction and Clarithromycin and Azithromycin Purchase Transaction has not been conducted.

### **IMPLICATIONS UNDER THE LISTING RULES**

As the highest applicable percentage ratio in respect of the Purchase Transactions and Clarithromycin and Azithromycin Purchase Transaction when aggregated with the transactions entered into between the Group and the Group's connected persons in the preceding 12 months pursuant to rule 14A.81 of the Listing Rules exceeds 5% but less than 25%, the Purchase Transactions and Clarithromycin and Azithromycin Purchase Transaction are therefore subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Entrusted Transactions when aggregated with the transactions entered into between the Group and the Group's connected persons in the preceding 12 months pursuant to rule 14A.81 of the Listing Rules exceeds 5% but less than 25%, the Entrusted Transactions are therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, each of the Counterparties is a subsidiary of the controlling shareholder of the Company, and therefore a connected person of the Company. Accordingly, the transactions between the Group and each of the Counterparties constitute connected transaction and/or continuing connected transactions of the Company.

Mr. Tang Xinfu, a non-executive Director, is considered to have a material interest in the transactions contemplated between the Group and the Group's connected persons by virtue of his position as a director and general manager of Shenzhen HEC Industrial (being the holding

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## LETTER FROM THE BOARD

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company of the Parent Company) and has abstained from voting on the board resolution approving the transactions contemplated between the Group and the Group's connected persons (including the annual caps).

### Internal Control Level

In addition to the annual review by the auditors and independent non-executive Directors as required under Chapter 14A of the Listing Rules, the Company has implemented or will implement the following internal control measures:

- (1) The finance department will check and monitor the aggregate transaction amounts of the Purchase Transactions, the Clarithromycin and Azithromycin Purchase Transaction and the Entrusted Transactions, and confirm that the transaction amounts will not exceed the annual caps for the continuing connected transactions under the Purchase Transactions, Clarithromycin and Azithromycin Purchase Transaction and the Entrusted Transactions, respectively. In the event that the total transaction amount reaches 80% of the annual cap or is expected to exceed the annual cap in the next two months, the personnel of the finance department shall notify the Board immediately to determine the appropriate action to be taken;
- (2) The Board will also from time to time inspect the Group's policies, provisions and implementation status with respect to the continuing connected transactions, including the investigation of the audit entity's processes for identifying connected persons and its processes for handling the continuing connected transactions; and
- (3) The audit committee of the Company shall review the contemplated transactions at least twice a year to confirm whether the relevant transactions are on fair and reasonable terms and in the interest of the Company and the Shareholder(s) as a whole.

The Board is of the view that the above methods and procedures can ensure that the pricing and other contractual terms for the continuing connected transaction(s) by the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole, and that the continuing connected transaction(s) is conducted as agreed under the API Purchase Contracts, the Steam Purchase Contracts, the Electricity Purchase Contracts, the Industrial Products Sale and Purchase Contracts, the Entrusted Inspection Contracts, the Clarithromycin and Azithromycin Purchase Transaction and the Entrusted Processing Contracts respectively and in compliance with the requirements under Chapter 14A of the Listing Rules.

### INFORMATION OF THE PARTIES

#### The Company

The Company is a pharmaceutical manufacturing company focusing on the development, manufacturing and sales of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases as well as cardiovascular diseases. The ultimate beneficial owner of the Company are Ms. Guo Meilan and Mr. Zhang Yushuai.

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## LETTER FROM THE BOARD

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### **Sunshine Lake Pharma**

Sunshine Lake Pharma is a company incorporated in the PRC and is an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It is primarily engaged in the development, manufacturing and sales of pharmaceutical products. The ultimate beneficial owner of Sunshine Lake Pharma are Ms. Guo Meilan and Mr. Zhang Yushuai.

### **Dongguan Yangzhikang**

Dongguan Yangzhikang is a company incorporated in the PRC in 2018, and is a direct wholly-owned subsidiary of the Company. It is engaged in research and development, production and sales of pharmaceutical products. The ultimate beneficial owner of Dongguan Yangzhikang are Ms. Guo Meilan and Mr. Zhang Yushuai.

### **Yichang HEC Pharmaceutical Manufacturing**

Yichang HEC Pharmaceutical Manufacturing is a company incorporated in the PRC in 2018 and is a direct wholly-owned subsidiary of the Company. It is engaged in the production and sales of domestic and overseas APIs. The ultimate beneficial owner of Yichang HEC Pharmaceutical Manufacturing are Ms. Guo Meilan and Mr. Zhang Yushuai.

### **Ruyuan HEC Pharmaceutical**

Ruyuan HEC Pharmaceutical is a company incorporated in the PRC in 2010 and is an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It is engaged in the pharmaceutical manufacturing industry. The ultimate beneficial owner of Ruyuan HEC Pharmaceutical are Ms. Guo Meilan and Mr. Zhang Yushuai.

### **Shaoguan HEC Packaging**

Shaoguan HEC Packaging is a company incorporated in the PRC in 2010 and is an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It is engaged in production and sales of four major product series, namely color box, board book binding, aluminum coated film, transfer film/paper and related laser products. The ultimate beneficial owner of Shaoguan HEC Packaging are Ms. Guo Meilan and Mr. Zhang Yushuai.

### **Yichang HEC Power Plant**

Yichang HEC Power Plant is a company incorporated in the PRC in 2006, and is a direct non-wholly owned subsidiary of Shenzhen HEC Industrial. It is engaged in thermal power generation, production and sales of steam. The ultimate beneficial owner of Yichang HEC Power Plant are Ms. Guo Meilan and Mr. Zhang Yushuai.

### **Yidu Changjiang Machine and Equipment**

Yidu Changjiang Machine and Equipment is a company incorporated in the PRC in 2004, and is a direct non-wholly owned subsidiary of Shenzhen HEC Industrial (with shareholding of 62.65%). It is a comprehensive enterprise providing rivet welding and mechanical processing. The ultimate beneficial owner of Yidu Changjiang Machine and Equipment are Ms. Guo Meilan and Mr. Zhang Yushuai.



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## LETTER FROM THE BOARD

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### **Yichang HEC Biochemical Manufacturing**

Yichang HEC Biochemical Manufacturing is a company incorporated in the PRC on 29 November 2018 and is an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It is engaged in biochemical pharmaceutical manufacturing. The ultimate beneficial owner of Yichang HEC Biochemical Manufacturing are Ms. Guo Meilan and Mr. Zhang Yushuai.

### **HEC Generic Drugs Development and Research**

HEC Generic Drugs Development and Research is a company incorporated in the PRC on 21 March 2019, and is an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It is engaged in research and development of drugs. The ultimate beneficial owner of HEC Generic Drugs Development and Research are Ms. Guo Meilan and Mr. Zhang Yushuai.

## **2. 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 (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps).

The Parent Company is required to abstain from voting on the resolution to be proposed at the EGM to approve the entering into of (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and the (ii) Entrusted Transactions (including the annual caps).

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



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## LETTER FROM THE BOARD

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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.

### **3. RECOMMENDATION OF THE BOARD**

The Directors are of the opinion that (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) 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 resolutions to be proposed at the EGM.

By virtue of his position as a director and general manager of Shenzhen HEC Industrial, Mr. Tang Xinfu, a non-executive Director, is considered to have a material interest in the entering into of (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) and has abstained from voting on the resolutions of the Board in relation to the entering into of (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps).

### **4. 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 (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) 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 (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) 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 resolutions to be proposed at the EGM to approve (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) as contemplated thereunder. The full text of the Letter from Gram Capital issued by Gram Capital containing its recommendation in respect of (i) the Purchase

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## LETTER FROM THE BOARD

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Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) as contemplated thereunder is set out on pages 35 to 72 of this circular.

The Independent Board Committee, having taken into account the advice of Gram Capital, considers (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) 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 resolutions to be proposed at the EGM to approve (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) as contemplated thereunder. The full text of the Letter from the Independent Board Committee is set out on pages 33 to 34 of this circular.

Yours faithfully

On behalf of the Board

**YiChang HEC ChangJiang Pharmaceutical Co., Ltd.**

**TANG Xinfa**

*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,

**CONTINUING CONNECTED TRANSACTIONS  
1. PURCHASE TRANSACTIONS  
2. ENTRUSTED TRANSACTIONS  
AND  
CONNECTED TRANSACTION  
CLARITHROMYCIN AND  
AZITHROMYCIN PURCHASE TRANSACTION**

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 (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) and to advise the Independent Shareholders in respect (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps). 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 (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) are conducted in the ordinary and usual course of business of the Company, and on normal commercial terms which are fair and reasonable and the transactions under (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) are in the interests

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions approving (i) the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and (ii) the Entrusted Transactions (including the annual caps) 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*

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## LETTER FROM GRAM CAPITAL

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*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 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,

### CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTION

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Purchase Transactions and Clarithromycin and Azithromycin Purchase Transaction; and (ii) the Entrusted Transactions ((i) and (ii) collectively, 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.

On 19 March 2021, the Company entered into various framework agreements with connected persons of the Company, including (i) the Purchase Transactions and Clarithromycin and Azithromycin Purchase Transaction; and (ii) the Entrusted Transactions.

With reference to the Board Letter, the Purchase Transactions and the Entrusted Transactions constitute continuing connected transactions and are subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. In addition, the Clarithromycin and Azithromycin Purchase Transaction constitutes connected transaction of the Company and is therefore subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM GRAM CAPITAL

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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 discloseable and 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 and the transactions contemplated thereunder.

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

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## LETTER FROM GRAM CAPITAL

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Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transactions. 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, Ruyuan HEC Pharmaceutical, Shaoguan HEC Packaging, Yichang HEC Biochemical Manufacturing, Yichang HEC Power Plant, Yidu Changjiang Machine and Equipment, Sunshine Lake Pharma, HEC Generic Drugs Development and Research 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.

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 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.



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## LETTER FROM GRAM CAPITAL

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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 counterparties to the Transactions*

#### *Sunshine Lake Pharma*

Sunshine Lake Pharma is a company incorporated in the PRC and is an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It is primarily engaged in the development, manufacturing and sales of pharmaceutical products. The ultimate beneficial owner of Sunshine Lake Pharma are Ms. Guo Meilan and Mr. Zhang Yushuai.

#### *Dongguan Yangzhikang*

Dongguan Yangzhikang is a company incorporated in the PRC in 2018, and is a direct wholly-owned subsidiary of the Company. It is engaged in research and development, production and sales of pharmaceutical products. The ultimate beneficial owner of Dongguan Yangzhikang are Ms. Guo Meilan and Mr. Zhang Yushuai.

#### *Yichang HEC Pharmaceutical Manufacturing*

Yichang HEC Pharmaceutical Manufacturing is a company incorporated in the PRC in 2018 and is a direct wholly-owned subsidiary of the Company. It is engaged in the production and sales of domestic and overseas APIs. The ultimate beneficial owner of Yichang HEC Pharmaceutical Manufacturing are Ms. Guo Meilan and Mr. Zhang Yushuai.

#### *Ruyuan HEC Pharmaceutical*

Ruyuan HEC Pharmaceutical is a company incorporated in the PRC in 2010 and is an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It is engaged in the pharmaceutical manufacturing industry. The ultimate beneficial owner of Ruyuan HEC Pharmaceutical are Ms. Guo Meilan and Mr. Zhang Yushuai.

#### *Shaoguan HEC Packaging*

Shaoguan HEC Packaging is a company incorporated in the PRC in 2010 and is an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It is engaged in production and sales of four major product series, namely color box, board book binding, aluminum coated film, transfer film/paper and related laser products. The ultimate beneficial owner of Shaoguan HEC Packaging are Ms. Guo Meilan and Mr. Zhang Yushuai.

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## LETTER FROM GRAM CAPITAL

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### *Yichang HEC Power Plant*

Yichang HEC Power Plant is a company incorporated in the PRC in 2006, and is a direct non-wholly owned subsidiary of Shenzhen HEC Industrial. It is engaged in thermal power generation, production and sales of steam. The ultimate beneficial owner of Yichang HEC Power Plant are Ms. Guo Meilan and Mr. Zhang Yushuai.

### *Yidu Changjiang Machine and Equipment*

Yidu Changjiang Machine and Equipment is a company incorporated in the PRC in 2004, and is a direct non-wholly owned subsidiary of Shenzhen HEC Industrial (with shareholding of 62.65%). It is a comprehensive enterprise providing rivet welding and mechanical processing. The ultimate beneficial owner of Yidu Changjiang Machine and Equipment are Ms. Guo Meilan and Mr. Zhang Yushuai.

### *Yichang HEC Biochemical Manufacturing*

Yichang HEC Biochemical Manufacturing is a company incorporated in the PRC on 29 November 2018 and is an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It is engaged in biochemical pharmaceutical manufacturing. The ultimate beneficial owner of Yichang HEC Biochemical Manufacturing are Ms. Guo Meilan and Mr. Zhang Yushuai.

### *HEC Generic Drugs Development and Research*

HEC Generic Drugs Development and Research is a company incorporated in the PRC on 21 March 2019, and is an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It is engaged in research and development of drugs. The ultimate beneficial owner of HEC Generic Drugs Development and Research are Ms. Guo Meilan and Mr. Zhang Yushuai.

## **2. Reasons for and benefits of the Transactions**

Reasons for and benefits of the Transactions are set out under the sections headed “Purchase Transactions” and “Entrusted Transactions” respectively in the Board Letter.

As advised by the Directors, the products/services under the Transactions were to ensure the normal engagement of the Company’s production and commercial activities by the Group. The Transactions will be entered into in the ordinary and usual course of business of the Group and on a frequent and regular basis. Therefore, it would be costly and impracticable to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Listing Rules (if necessary).

In addition, as confirmed by the Directors, pricing terms of the Transactions offered by connected person(s) will be (i) no less favourable than those offered by independent third parties under same/similar circumstances (in terms of transaction nature, size, independent supplier’s background, reputation and reliabilities, etc.); (ii) based on cost plus a reasonable costs (note: our analyses in respect of reasonable cost are set out under the sections headed

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## LETTER FROM GRAM CAPITAL

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“A.6 Industrial Products Sale and Purchase Contracts”, “B.1 Entrusted Inspection Contracts”, “B.2 Supplemental Entrusted Sewage Treatment Agreement”, and “B.3 Entrusted Processing Framework Agreements” below) or (iii) in line with government-prescribed price. Upon our further discussion with the Company, we understood that in addition to the internal control measures as mentioned in the Board Letter, the Group will further conduct following measures to ensure fair pricing before the entering into of the individual Transactions:

- In respect of the purchase price which will be determined with reference to the market price (i.e. continuing connected transactions contemplated under (i) API Purchase Contracts; (ii) Packaging Materials Purchase Contract; (iii) Supplemental Chemical Materials and Hardware Materials Purchase Agreement), procurement department will collect price quotations from at least two independent third party suppliers. If the purchase price offered by connected party is higher than those offered by the independent third party suppliers under same/similar circumstances (in terms of transaction nature, size, independent supplier’s background, reputation and reliabilities, etc.), the Group will negotiate with the connected party and procure relevant products or accept relevant services from the connected party only if the purchase price offered by connected party is not higher than those offered by the independent third party suppliers.

Based on the aforesaid, it indicates that the purchase price offered by the connected party will be no less favourable than those offered by independent third party suppliers under same/similar circumstances (in terms of transaction nature, size, independent supplier’s background, reputation and reliabilities, etc.).

- In respect of the purchase price which will be determined with reference to cost plus certain margins (i.e. continuing connected transactions contemplated under (i) Industrial Products Sale and Purchase Contracts; (ii) Entrusted Inspection Contracts; (iii) Supplemental Entrusted Sewage Treatment Agreement; and (iv) Entrusted Processing Framework Agreements), procurement department will, after receiving purchase price offered by connected party, discuss with relevant departments such as production department and finance department to estimate cost of such products/services. The procurement department will further include the maximum margin as stated in relevant framework agreement to ensure the purchase price is not higher than the implied price (i.e. cost plus margin). If the cost is difficult for the aforesaid departments to estimate, procurement department will request the connected person to provide cost of relevant products/services).
- In respect of the price which will be determined with reference to government-prescribed price (i.e. continuing connected transactions contemplated under (i) Steam Supply Contracts; and (ii) Power Supply Supplemental Agreement and 2021 Power Supply Contract), the procurement department is responsible for checking the price offered by the connected party to ensure such price is in line with the government-prescribed price.

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## LETTER FROM GRAM CAPITAL

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Upon our further request, we also obtain a document showing the internal control measures (including the measures as mentioned above) from the Company.

Based on the above, we consider that the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interest of the Company and the Independent Shareholders as a whole.

### 3. 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 “Continuing Connected Transactions Provided by the Group’s Connected Persons to the Group” of the Board Letter.

#### A. The Purchase Transactions

##### A.1 API Purchase Contracts

	API Purchase Contract (I)	API Purchase Contract (II)	API Purchase Contract (III)
Date	19 March 2021		
Parties	Dongguan Yangzhikang; and Ruyuan HEC Pharmaceutical	Dongguan Yangzhikang; and Yichang HEC Biochemical Manufacturing	The Company; and Ruyuan HEC Pharmaceutical
Term	From 19 March 2021 to 31 December 2021		
Nature of transaction	Dongguan Yangzhikang agreed to purchase active pharmaceutical ingredients, such as Alogliptin Benzoate, Moxifloxacin Hydrochloride and Aripiprazole, from Ruyuan HEC Pharmaceutical.	Dongguan Yangzhikang shall purchase APIs such as Clarithromycin from Yichang HEC Biochemical Manufacturing.	The Company agreed to purchase APIs such as Alogliptin Benzoate, Escitalopram Oxalate, Aripiprazole, Linagliptin, Sitagliptin phosphate monohydrate and Rivaroxaban from Ruyuan HEC Pharmaceutical.
Payment term	Dongguan Yangzhikang/the Company will make corresponding payment to Ruyuan HEC Pharmaceutical within one month after receiving the APIs and passing the acceptance tests and receipt of the invoice from Ruyuan HEC Pharmaceutical/Yichang HEC Biochemical Manufacturing.		

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## LETTER FROM GRAM CAPITAL

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Pricing policy      In selecting the API suppliers, the Company will obtain quotations from the Group's connected persons and at least two suppliers who are independent third parties. As the Company is also engaged in manufacturing of pharmaceutical products, it is well familiar with the market price of relevant APIs required for the production. The prices and terms offered by the Group's connected persons will be fair and reasonable and comparable to those offered by such independent third parties suppliers.

The Directors are of the view that by requiring the Group's connected persons to offer prices and terms similar to those offered by two other independent third parties suppliers under the API Purchase Contract (I), the API Purchase Contract (II) and the API Purchase Contract (III), it can ensure that such prices and terms will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed "Internal Control Level" of the Board Letter.

After discussing with the Company and having considered that there will be price collection and comparison procedures before the entering into of transactions contemplated under the API Purchase Contracts to ensure the purchase prices of relevant APIs to be determined in accordance with their market prices and be no less favourable than those offered by independent third party suppliers under same/similar circumstances (in terms of transaction nature, size, independent supplier's background, reputation and reliabilities, etc.), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the API Purchase Contracts.

Having considered the above factors, we are of the view that the terms of the transactions contemplated under the API Purchase Contracts are on normal commercial terms.

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## LETTER FROM GRAM CAPITAL

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### A.1.1 Proposed annual caps

The table below demonstrates (i) the historical transactions amounts of APIs purchased by the Group from connected persons for the three years ended 31 December 2020; and (ii) the proposed annual caps for FY2021:

	For the year ended 31 December 2018 <i>RMB'000</i>	For the year ended 31 December 2019 <i>RMB'000</i>	For the year ended 31 December 2020 <i>RMB'000</i>
Historical transaction amounts	Nil	1,729.24	6,154.42
	API Purchase Contract (I) <i>RMB'000</i>	API Purchase Contract (II) <i>RMB'000</i>	API Purchase Contract (III) <i>RMB'000</i>
Proposed annual caps for FY2021	5,000.50	19,200.00	5,099.10

We understood that the Directors considered factors set out under the sub-section headed “Annual caps and determination basis” under the section headed “1. API Purchase Contract (I), API Purchase Contract (II) and API Purchase Contract (III)” of the Board Letter when determining the proposed annual caps for each of the API Purchase Contracts for FY2021.

According to the above table, the estimated amounts under the API Purchase Contracts for FY2021 (i.e. RMB29,299,600) represented significant increase of the historical transaction amounts of RMB6,154,420 for FY2020. As advised by the Directors, the significant implied increase was mainly due to the Company’s new products launched at the end of FY2020 and beginning of FY2021.

Upon our request, we obtained breakdown of the estimated demand of the API purchase for FY2021. We noted that the estimated demand of materials under the API Purchase Contracts will be used for the manufacturing of different pharmaceutical products, which (i) won the bid for the centralized procurement (the “**Centralized Procurement Products**”); (ii) were newly approved to launch (the “**New Products**”); and (iii) were accepted (受理) in registration of domestic production (the “**Registration-in-progress Products**”).

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## LETTER FROM GRAM CAPITAL

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### A.1.1.1 Centralized Procurement Products

The estimated demand of materials for pharmaceutical products which won the bid for the centralized procurement for FY2021 (i.e. RMB22.2 million) accounted for approximately 76% to the total estimated demand of materials for pharmaceutical products for FY2021. The materials will be used for producing of Moxifloxacin Hydrochloride Tablet (鹽酸莫西沙星片) and Clarithromycin Tablets (克拉霉素片).

#### A.1.1.1.1 Moxifloxacin Hydrochloride Tablet (鹽酸莫西沙星片)

We noted from the Company's announcement dated 17 January 2020 that on even date, the Company participated in the tender process in respect of the Second National Centralized Procurement of Pharmaceuticals (第二批國家組織藥品集中採購) organized by the National Organization Office for the Centralized Procurement and Usage of Pharmaceuticals\* (國家組織藥品集中採購和使用聯合採購辦公室) (the “**Joint Procurement Office**”). The Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) of Dongguan Yangzhikang won the bid for the centralized procurement.

According to the Company's annual report for FY2020, the Group produced approximately 4.3 million boxes of Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片). The Directors assumed the production level of Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) for FY2021 to be remained at similar level to that for FY2020 after considering that Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) won the bid for the centralized procurement in the beginning of FY2020. We further noted that the estimated demand of APIs for producing the Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) of approximately 1.07 million boxes represented a portion of total implied amount of APIs for producing Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) of approximately 4.76 boxes for FY2021. As explained by the Directors, as the Group is able to produce the APIs for producing Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片), therefore the assumption of external purchase for the APIs will be less than the total implied amount of APIs for producing Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) for FY2021.

In addition, the Directors also advised us the cost of APIs for producing per box of Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片).



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## LETTER FROM GRAM CAPITAL

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As the estimated purchase (i.e. RMB3 million) of APIs for producing Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) was close to the implied purchase of such products (based on estimated demand in volume for FY2021 (i.e. approximately 1.07 million boxes) and its per unit cost (i.e. approximately RMB2.8 per box)), we consider the estimated purchase of APIs for Moxifloxacin Hydrochloride Tablets (鹽酸莫西沙星片) of RMB3 million to be reasonable.

### A.1.1.1.2 Clarithromycin Tablets (克拉霉素片)

We also noted from the Company's announcement dated 24 August 2020 that on 20 August 2020, the Company participated in the tender process in respect of the Third National Centralized Procurement of Pharmaceuticals (第三批國家組織藥品集中採購) organized by the Joint Procurement Office. Clarithromycin Tablets (克拉霉素片) of the Group won the bid for the centralized procurement.

Upon our further request, the Directors provided us the information showing the monthly sale of Clarithromycin Tablets (克拉霉素片) from June 2020 to March 2021. In addition, the Directors advised us that the centralized procurement of Clarithromycin Tablets (克拉霉素片) commenced from November 2020. According to the aforesaid information, the monthly average sale of Clarithromycin Tablets (克拉霉素片) during the period from November 2020 to March 2021 (i.e. the commencement of centralized procurement) represented approximately 3.5 times to the monthly average sale during the period from June 2020 to October 2020 (i.e. before centralized procurement). The Group recorded highest monthly sale in November 2020 during the aforesaid period. We also noted that the estimated monthly sale of Clarithromycin Tablets (克拉霉素片) from April 2021 to December 2021 was in accordance with the sale in November 2020. As also advised by the Directors, in order to deliver Clarithromycin Tablets (克拉霉素片) in a timely manner, the Group will produce certain amount of Clarithromycin Tablets (克拉霉素片) in advance as inventory. The estimated production volume represented approximately 1.4 times to the estimated sales volume of Clarithromycin Tablets (克拉霉素片) for FY2021. According to the Company's annual report for FY2020, the Group produced approximately 4.4 million boxes of Clarithromycin Tablets (克拉霉素片) and sold approximately 3.6 million boxes of Clarithromycin Tablets (克拉霉素片), the production volume represented approximately 1.2 times of the sales volume during FY2020. Therefore, we consider the estimated production volume for Clarithromycin Tablets (克拉霉素片) during FY2021 to be reasonable.



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## LETTER FROM GRAM CAPITAL

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In addition, the Directors also advised us the estimated cost of APIs for producing per box of Clarithromycin Tablets (克拉霉素片). We understood that the cost was determined mainly based on the estimated purchase price of APIs of Clarithromycin Tablets (克拉霉素片), which accounted for approximately 94% to the cost of APIs for producing per box of Clarithromycin Tablets (克拉霉素片). Upon our request, the Directors provided us three copies of invoices in respect of the purchase of APIs of Clarithromycin Tablets (克拉霉素片) from independent third parties, showing the purchase price of Clarithromycin Tablets (克拉霉素片). The estimated purchase price of Clarithromycin Tablets (克拉霉素片) falls within the range of actual purchase price of Clarithromycin Tablets (克拉霉素片) as shown in the invoices. Accordingly, we consider the estimated cost of APIs for producing per box of Clarithromycin Tablets (克拉霉素片) to be acceptable.

As the estimated purchase of APIs for producing Clarithromycin Tablets (克拉霉素片) of RMB19.2 million was close to the implied purchase of such products (based on estimated demand in volume for FY2021 and its per unit cost) of approximately RMB19.0 million, we consider the estimated purchase of APIs for producing Clarithromycin Tablets (克拉霉素片) to be reasonable.

Based on our analyses above, we consider the estimated purchase of APIs for producing the Centralized Procurement Products to be reasonable.

### A.1.1.2 New Products and Registration-in-progress Products

The estimated demand of materials for the New Products and Registration-in-progress Products for FY2021 accounted for approximately 24% to the total estimated demand of materials for pharmaceutical products for FY2021.

Upon our request, we obtained the Company's estimation on production volume of each of the New Products and Registration-in-progress Products with their APIs costs for FY2021.

In addition, we also understood that the Company expected the approval of Registration-in-progress Products to be obtained by the Company within FY2021.

As the estimated demand of materials for the New Products and Registration-in-progress Products for FY2021 was calculated based on their respective estimated production volume and APIs costs, we consider the estimated demand of materials for the New Products and Registration-in-progress Products to be reasonable.

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## LETTER FROM GRAM CAPITAL

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Based on our analyses as set out in the above sections, we consider the estimated demand of the purchase of API for FY2021 to be reasonable. Accordingly, we consider the proposed annual cap for FY2021 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2021, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the API Purchase Contracts. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the API Purchase Contracts will correspond with the proposed annual cap.

### *A.2 Packaging Materials Purchase Contract*

Date:	19 March 2021
Parties:	the Company; and Shaoguan HEC Packaging
Term:	From 19 March 2021 to 31 December 2021
Nature of transaction:	The Company agreed to purchase printed packaging materials from Shaoguan HEC Packaging.
Payment method:	The Company will pay Shaoguan HEC Packaging on a monthly basis and within 30 days upon receipt of the invoice from Shaoguan HEC Packaging.
Pricing policy:	When selecting suppliers of packaging materials, the Company will obtain quotations from the Group's connected persons and at least two independent third party suppliers. The prices and terms offered by the Group's connected persons will be fair and reasonable and comparable to those offered by such independent third party suppliers. The Directors are of the view that by requiring the Group's connected persons to offer prices and terms similar to those offered by two other independent third party suppliers under the Packaging Materials Purchase Contract, it can ensure that such prices and terms will be on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

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## LETTER FROM GRAM CAPITAL

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With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed “Internal Control Level” of the Board Letter. After discussing with the Company and having considered that there will be price collection and comparison procedures before the entering into of transactions contemplated under the Packaging Materials Purchase Contract to ensure the purchase prices of relevant products will be determined in accordance with their market prices and be no less favourable than those offered by independent third party suppliers under same/similar circumstances (in terms of transaction nature, size, independent supplier’s background, reputation and reliabilities, etc.), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Packaging Materials Purchase Contract.

Having considered the above factors, we are of the view that the terms of the transactions contemplated under the Packaging Materials Purchase Contract are on normal commercial terms.

### A.2.1 Proposed annual caps

The table below demonstrates (i) the historical transactions amounts of the Packaging Materials purchased by the Group from connected persons for the three years ended 31 December 2020; and (ii) the proposed annual cap for FY2021:

	<b>For the year ended 31 December 2018 <i>RMB’000</i></b>	<b>For the year ended 31 December 2019 <i>RMB’000</i></b>	<b>For the year ended 31 December 2020 <i>RMB’000</i></b>
Historical transaction amounts	18,955.16	18,955.16	18,916.22
	<b>For the year ending 31 December 2021 <i>RMB’000</i></b>		
Proposed annual cap	16,150		

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## LETTER FROM GRAM CAPITAL

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We understood that the Directors considered factors set out under the sub-section headed “Annual caps and determination basis” under the section headed “2. Packaging Materials Purchase Contract” of the Board Letter when determining the proposed annual caps for the purchase of Packaging Materials for FY2021.

According to the above table, the estimated amounts of Packaging Materials for FY2021 (i.e. RMB16,150,000) represented a decrease of approximately 14.6% as compared to the historical transaction amounts of RMB18,916,220 for FY2020. As advised by the Directors, the decrease in estimated demand of Packaging Materials was mainly due to the decrease of sales in the Group’s core product, Kewei in FY2020 as compared to that in FY2019. 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.

We understood from the Directors that they expected the sales volume of Kewei to be gradually resumed in FY2021 (by way of the sale of Kewei which was already manufactured first). In addition, multiple products of the Group have been approved for launch in end of 2020 and beginning of 2021. Accordingly, the Directors consider the decrease in demand of Packaging Materials will be partially offset by the demand of Packaging Materials for new launched products.

With reference to the Board Letter, the Group recorded production volumes and sales volumes of (i) Oseltamivir Phosphate Granule of 45,631,250 boxes and 33,167,846 boxes respectively for FY2020; and Oseltamivir Phosphate Capsule of 13,911,540 boxes and 10,041,737 boxes respectively for FY2020. Therefore, as confirmed by the Directors, the Group has both Oseltamivir Phosphate Granule and Oseltamivir Phosphate Capsule as inventories. In addition, according to the Company’s announcement dated 29 April 2021, for the three months ended 31 March 2021, due to the influence of COVID-19 pandemic, the traffic of people to medical institutions including hospitals of all levels had declined, resulting in a decrease in the sales volume of the Company’s core product, Kewei. Accordingly, the Directors expected the production volumes of Oseltamivir Phosphate Granule and Oseltamivir Phosphate Capsule to be reduced.

For prudence sake, the Directors adjusted the estimated demand of Packaging Materials downward.

Based on the above analyses, we consider the estimated demand of the purchase of Packaging Materials for FY2021 to be reasonable. Accordingly, we consider the proposed annual cap for FY2021 to be fair and reasonable.

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## LETTER FROM GRAM CAPITAL

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Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2021, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Packaging Materials Purchase Contract. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Packaging Materials Purchase Contract will correspond with the proposed annual cap.

### *A.3 Supplemental Chemical Materials and Hardware Materials Purchase Agreement*

Date:	19 March 2021
Parties:	the Company; and Yichang HEC Biochemical Manufacturing
Term:	From 19 March 2021 to 31 December 2021
Nature of transaction:	The Company agreed to purchase chemical materials and hardware materials from Yichang HEC Biochemical Manufacturing
Payment method:	The Company will pay Yichang HEC Biochemical Manufacturing on a monthly basis and within 30 days upon receipt of the invoice from Yichang HEC Biochemical Manufacturing.
Pricing policy:	When selecting suppliers of chemical materials and hardware materials, the Company will obtain quotations from the Group's connected persons and at least two independent third party suppliers. The prices and terms offered by the Group's connected persons will be fair and reasonable and comparable to those offered by such independent third party suppliers. The Directors are of the view that by requiring the Group's connected persons to offer prices and terms similar to those offered by two other independent third party suppliers, it can ensure that such prices and terms will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed "Internal Control Level" of the Board Letter. After discussing with the Company and having considered that there will be price collection and comparison procedures before the entering into of transactions

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## LETTER FROM GRAM CAPITAL

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contemplated under the Supplemental Chemical Materials and Hardware Materials Purchase Agreement to ensure the purchase prices of relevant products will be determined in accordance with their market prices and be no less favourable than those offered by independent third party suppliers under same/similar circumstances (in terms of transaction nature, size, independent supplier's background, reputation and reliabilities, etc.), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Supplemental Chemical Materials and Hardware Materials Purchase Agreement.

Having considered the above factors, we are of the view that the terms of the transactions contemplated under the Supplemental Chemical Materials and Hardware Materials Purchase Agreement are on normal commercial terms.

### A.3.2 Proposed annual caps

The table below demonstrates (i) the historical transactions amounts of the Chemical Materials and Hardware Materials Purchase from connected persons for the three years ended 31 December 2020; and (ii) the proposed annual cap for FY2021:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Historical transaction amounts	6,628.16	5,012.16	5,443.84
	<b>For the year ending 31 December 2021 RMB'000</b>		
Proposed annual cap	8,000		

We understood that the Directors considered factors set out under the subsection headed "Annual caps and determination basis" under the section headed "3. Supplemental Chemical Materials and Hardware Materials Purchase Agreement" of the Board Letter when determining the proposed annual caps for the purchase of Chemical Materials and Hardware Materials Purchase for FY2021.

According to the above table, the estimated amounts of Chemical Materials and Hardware Materials Purchase for FY2021 (i.e. RMB8,000,000) represented a substantial increase of approximately 47.0% as compared to the historical

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## LETTER FROM GRAM CAPITAL

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transaction amounts of RMB5,443,840 for FY2020. As advised by the Directors, the substantial increase was mainly due to (i) the expectation on sales volume of the Group's core product, Kewei, to be gradually resumed in FY2021; (ii) multiple products of the Group have been approved for launch in end of 2020 and beginning of 2021.

Based on the above analyses, we consider the estimated demand of the purchase of Chemical Materials and Hardware Materials Purchase for FY2021 to be reasonable. Accordingly, we consider the proposed annual cap for FY2021 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2021, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Supplemental Chemical Materials and Hardware Materials Purchase Agreement. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Supplemental Chemical Materials and Hardware Materials Purchase Agreement will correspond with the proposed annual cap.

### *A.4 Steam Supply Contracts*

	<b>Steam Supply Supplemental Agreement (I)</b>	<b>Steam Supply Supplemental Agreement (II)</b>	<b>2021 Steam Supply Contract</b>
Date	19 March 2021		
Parties	the Company; and Yichang HEC Power Plant	the Company; and Yichang HEC Biochemical Manufacturing	Yichang HEC Pharmaceutical Manufacturing; and Yichang HEC Power Plant
Term	From 19 March 2021 to 31 December 2021		
Nature of transaction	The Company agreed to purchase steam from Yichang HEC Power Plant	The Company agreed to purchase steam from Yichang HEC Biochemical Manufacturing	Yichang HEC Pharmaceutical Manufacturing agreed to purchase steam from Yichang HEC Power Plant
Payment term	The payment for steam is payable on a monthly basis.		

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## LETTER FROM GRAM CAPITAL

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Pricing policy      The price of steam to be charged under the Steam Supply Supplemental Agreement (I), the Steam Supply Supplemental Agreement (II) and the 2021 Steam Supply Contract is determined with reference to the approval of the price of steam in the direct supply area of Yichang HEC Power Plant by the Yichang Municipal Price Bureau. The price of steam charged under the Steam Supply Supplemental Agreement (I), the Steam Supply Supplemental Agreement (II) and the 2021 Steam Supply Contract is determined with reference to the heat supply price from the same type of enterprise in the heat supply price list issued by Yichang Municipal Price Bureau.

With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed “Internal Control Level” of the Board Letter. After discussing with the Company and having considered that the procurement department is responsible for checking the price offered by the connected parties before entering into of the transactions contemplated under the Steam Supply Contracts to ensure such price is in line with the government-prescribed price, we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Steam Supply Contracts.

Having considered the above factors, we are of the view that the terms of the transactions contemplated under the Steam Supply Contracts are on normal commercial terms.

### A.4.2 Proposed annual caps

The table below demonstrates (i) the historical transactions amounts of the purchase of steam from connected persons for the three years ended 31 December 2020; and (ii) the proposed annual caps for FY2021:

	<b>For the year ended 31 December 2018 <i>RMB'000</i></b>	<b>For the year ended 31 December 2019 <i>RMB'000</i></b>	<b>For the year ended 31 December 2020 <i>RMB'000</i></b>
Historical transaction amounts	6,630.96	10,188.50	10,000.84
	<b>Steam Supply Supplemental Agreement (I) <i>RMB'000</i></b>	<b>Steam Supply Supplemental Agreement (II) <i>RMB'000</i></b>	<b>2021 Steam Supply Contract <i>RMB'000</i></b>
Proposed annual caps for FY2021	9,000	9,000	4,200



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## LETTER FROM GRAM CAPITAL

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We understood that the Directors considered factors set out under the sub-section headed “Annual caps and basis of annual caps” under the section headed “4. Steam Supply Supplemental Agreement (I), Steam Supply Supplemental Agreement (II) and 2021 Steam Supply Contract” of the Board Letter when determining the proposed annual caps for the steam to be purchased for FY2021.

According to the above table, the estimated amount of steam for FY2021 (i.e. RMB22,200,000 in aggregate) represented a significant increase as compared to the historical transaction amounts of RMB10,000,840 for FY2020. As advised by the Directors, the aforesaid increase in estimated demand of steam was mainly due to the increase in production capacity and proposed mass production of newly launched products in FY2021.

According to the 2020 Annual Report, the Company’s self-developed Recombinant Human Insulin Injection has been approved by the NMPA and permitted to be launched. This product is the first biologic drug of the Group being approved to launch, which further enriches the Group’s product portfolio and fills in the blank of biologic drug products. It is used to treat diabetic patients who need insulin to maintain normal blood glucose level. According to data purchased by the Company from IQVIA<sup>(Note)</sup>, the sales of drugs for the diabetes field in domestic public medical institutions in 2019 was US\$3.92 billion (representing an increase of 9% as compared to that for 2018), 42.5% of the sales of drugs for the diabetes field was attributable to the sales of insulin and its analogues, making them the most important medicine for treating diabetes.

In addition, construction of a new formulation production plant located in Yidu Base Area No. 3 completed in principal in 2020 and such plant will commence the commercial production in 2021. The designed production capacity of the new formulation production plan per annum is (i) 500 million tablets of tablets; (ii) 1,000 million packets of granules; and (iii) 300 million pieces of capsules, representing a substantial increase in designed production capacity of current formulation production plant.

On 21 June 2019, the Company entrusted Yidu Construction to provide civil engineering construction services for the synthesis workshop, machine repair workshop, hazardous waste warehouse, class A warehouse, class C warehouse, guard room, storage tank area, hydrogenation workshop, etc. in the phase I HEC project of innovative drugs and generic drugs, which located in Louzih Village, Zhicheng Town, Yidu, Yichang, Hubei, China. The Directors expected the trail production of the phase I HEC project to commence in 2021.

*Note:* According to the website of IQVIA (<https://www.iqvia.com/>), IQVIA is a leading global provider of advanced analytics, technology solutions, and clinical research services to the life sciences industry.

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## LETTER FROM GRAM CAPITAL

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Having considered the above factors and that, as advised by the Directors, steam and electricity are two of the necessary resources for the Group's self-production of pharmaceutical products, we consider the proposed increase in the estimated amounts of steam for FY2021 to be acceptable. Accordingly, we consider the proposed annual caps for FY2021 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2021, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Steam Supply Contracts. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Steam Supply Contracts will correspond with the proposed annual cap.

### *A.5 Power Supply Supplemental Agreement and 2021 Power Supply Contract*

	<b>Power Supply Supplemental Agreement</b>	<b>2021 Power Supply Contract</b>
Date	19 March 2021	
Parties	the Company; and Yichang HEC Power Plant	Yichang HEC Pharmaceutical Manufacturing; and Yichang HEC Power Plant
Term	From 19 March 2021 to 31 December 2021	
Nature of transaction	The Company agreed to purchase electricity from Yichang HEC Power Plant	Yichang HEC Pharmaceutical Manufacturing agreed to purchase electricity from Yichang HEC Power Plant
Payment term	The electricity fee is charged on a monthly basis and the Company/Yichang HEC Pharmaceutical Manufacturing shall pay the relevant amount before the end of the month after receiving the invoice from Yichang HEC Power Plant	
Pricing policy	The electricity fees charged under the Power Supply Supplemental Agreement and the 2021 Power Supply Contract are determined with reference to the on-grid tariff of RMB0.4161/kWh offered by Yichang HEC Power Plant, which was approved by the Provincial Price Bureau in the notice of reasonably adjustment of the electricity tariff structure pursuant to Hubei Provincial Price Bureau (E Jia Huan Zi [2017] No. 92) (鄂價環資[2017]92號文) and the approval of Yichang Municipal Price Bureau (Yi Dong Dian [2011] No. 1) (宜東電[2011]1號文) stipulates the power supply tariff in the direct supply zone shall not lower than 80% of the on-grid tariff in Hubei Province in the same period and not higher than the principle on-grid tariff of Hubei Province in the same period, and is subject to an agreed pricing of RMB0.3329/kWh throughout the year.	

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## LETTER FROM GRAM CAPITAL

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With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed “Internal Control Level” of the Board Letter. After discussing with the Company and having considered that the procurement department is responsible for checking the price offered by the connected parties before entering into of the transactions contemplated under the Electricity Purchase Contracts to ensure such price is in line with the government-prescribed price, we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Electricity Purchase Contracts.

Having considered the above factors, we are of the view that the terms of the transactions contemplated under the Electricity Purchase Contracts are on normal commercial terms.

### A.5.2 Proposed annual caps

The table below demonstrates (i) the historical transactions amounts of the electricity purchased from connected persons for the three years ended 31 December 2020; and (ii) the proposed annual caps for FY2021:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Historical transaction amounts	8,471.33	9,739.55	12,395.47
	<b>Power Supply Supplemental Agreement RMB'000</b>	<b>2021 Power Supply Contract RMB'000</b>	
Proposed annual caps for FY2021	30,300	3,200	

We understood that the Directors considered factors set out under the sub-section headed “Annual caps and basis of annual caps” under the section headed “5. Power Supply Supplemental Agreement and 2021 Power Supply Contract” of the Board Letter when determining the proposed annual caps for the electricity to be purchased for FY2021.

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## LETTER FROM GRAM CAPITAL

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According to the above table, the estimated amounts of electricity for FY2021 (i.e. RMB33,500,000 in aggregate) represented a significant increase as compared to the historical transaction amounts of RMB12,395,470 for FY2020. As advised by the Directors, the aforesaid increase in estimated demand of electricity was mainly due to the increase in production capacity and proposed mass production of newly launched products in FY2021.

Having considered the factors as set out under the sub-section headed “A 4.2 Proposed annual caps” above and that as advised by the Directors, steam and electricity are two of the necessary resources for the Group’s self-production of pharmaceutical products, we consider the proposed increase in the estimated amounts of electricity purchased for FY2021 to be acceptable. Accordingly, we consider the proposed annual caps for FY2021 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2021, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Power Supply Supplemental Agreement and 2021 Power Supply Contract. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Power Supply Supplemental Agreement and 2021 Power Supply Contract will correspond with the proposed annual caps.

### *A.6 Industrial Products Sale and Purchase Contracts*

	<b>Industrial Products Sale and Purchase Contract (I)</b>	<b>Industrial Products Sale and Purchase Contract (II)</b>
Date	19 March 2021	
Parties	Yichang HEC Pharmaceutical Manufacturing; The Company; and Yidu Changjiang Machine and Yidu Changjiang Machine and Equipment	
Term	From 19 March 2021 to 31 December 2021	
Nature of transaction	Yichang HEC Pharmaceutical Manufacturing agreed to purchase of tank field and workshop renovation equipment from Yidu Changjiang Machine and Equipment	The Company agreed to purchase of tank field and workshop renovation equipment from Yidu Changjiang Machine and Equipment
Payment term	The Company/Yichang HEC Pharmaceutical Manufacturing will settle the payment to Yidu Changjiang Machine and Equipment upon receipt of the tank field and for workshop equipment and invoice to be issued by Yidu Changjiang Machine and Equipment and after examination and acceptance thereof.	

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## LETTER FROM GRAM CAPITAL

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Pricing policy      The price charged by Yidu Changjiang Machine and Equipment to the Group for the purchase of equipment adopts a “cost-plus” mechanism in which a range of 10%–15% of the profit is charged.

For our due diligence purpose, we searched the gross profit margin of companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange and is a participant in producing & sales of pharmaceutical machinery product industry. Based on information obtained from Wind Financial Terminal<sup>(Note)</sup>, the gross profit margin of producing & sales of pharmaceutical machinery product industry ranged from approximately 33% to 44% from 2016 to 2020. As the Yidu Changjiang Machine and Equipment will charge a smaller margin as compared to the industry, we consider the range of margin of 10%-15% to be acceptable.

With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed “Internal Control Level” of the Board Letter. After discussing with the Company and having considered that procurement department, together with relevant departments such as production department and finance department will analyse the cost of relevant products (or to procure the connected person to provide cost of relevant products) before entering into of the transactions contemplated under the Industrial Products Sale and Purchase Contracts to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. 10%–15% of the profit), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Industrial Products Sale and Purchase Contracts.

Having considered the above factors, we are of the view that the terms of the transactions contemplated under the Industrial Products Sale and Purchase Contracts are on normal commercial terms.

*Note:* According to the website of Wind Financial Terminal, Wind was founded in 1994. As the market leader in China’s financial information services industry, Wind is dedicated to provide accurate and real-time information, as well as sophisticated communication platforms for financial professionals. In the PRC, Wind serves more than 90% of financial institutions including hedge funds assets management firms, securities companies, insurance companies, banks, research institutions, and government regulatory bodies.

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## LETTER FROM GRAM CAPITAL

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### A.6.2 Proposed annual caps

The table below demonstrates (i) the historical transactions amounts of industrial products purchased from connected persons for the three years ended 31 December 2020; and (ii) the proposed annual caps for FY2021:

	<b>For the year ended 31 December 2018 <i>RMB'000</i></b>	<b>For the year ended 31 December 2019 <i>RMB'000</i></b>	<b>For the year ended 31 December 2020 <i>RMB'000</i></b>
Historical transaction amounts	6,239.21	4,517.95	16,088.17
	<b>Industrial Products Sale and Purchase Contract (I) <i>RMB'000</i></b>	<b>Industrial Products Sale and Purchase Contract (II) <i>RMB'000</i></b>	
Proposed annual caps for FY2021	11,000	7,000	

We understood that the Directors considered factors set out under the sub-section headed “Annual caps and basis of annual caps” under the section headed “6. Industrial Products Sale and Purchase Contract (I) and Industrial Products Sale and Purchase Contract (II)” of the Board Letter when determining the proposed annual caps for the purchase of industrial products for FY2021.

According to the above table, the estimated amounts of industrial products for FY2021 (i.e. RMB18,000,000 in aggregate) represented a substantial increase of approximately 11.9% as compared to the historical transaction amounts of RMB16,088,170 for FY2020.

With reference to the Board Letter, the Group needs to purchase equipment necessary for workshop renovation to carry out its business. Specialized in production of equipment, Yidu Changjiang Machine and Equipment is familiar with the business and operation requirements of the Group, and maintains a good long-term cooperative relationship with the Group, which can provide the Group with the necessary equipment stably.

As stated in the 2020 Annual Report, the Group recorded net cash used in investing activities of approximately RMB2,094 million during FY2020, of which payment for the purchase of property, plant and equipment amounted to approximately RMB994 million.

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## LETTER FROM GRAM CAPITAL

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In addition, as mentioned above, the estimated amounts of industrial products (i.e. RMB18,000,000 in aggregate) represented an increase of approximately 11.9% as compared to the historical demand of industrial products for FY2020. As advised by the Directors, the increase was mainly due to the result of the approval for launch of multiple products in end of 2020 and beginning of 2021 that will also lead to the Group's demand of industrial products for the purpose of production.

Furthermore, on 28 July 2020, YiChang HEC Pharmaceutical Manufacturing and Yidu Construction entered into a construction work contract, pursuant to which YiChang HEC Pharmaceutical Manufacturing entrusted Yidu Construction to provide engineering, procurement and construction (EPC) services for its synthesis workshop 5, synthesis workshop 6 and synthesis workshop 8 in the phase I of the innovative and generic drug project of the Company. Accordingly, the Group is required to purchase relevant industrial products for the workshops.

Based on the above factors, we consider the estimated amounts of industrial products to be purchased for FY2021 to be reasonable. Accordingly, we consider the proposed annual caps for FY2021 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2021, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Industrial Products Sale and Purchase Contracts. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Industrial Products Sale and Purchase Contracts will correspond with the proposed annual cap.

### *A.7 API Purchase Contract (IV)*

Date:	19 March 2021
Parties:	The Company; and Yichang HEC Biochemical Manufacturing
Nature of transaction:	The Company agreed to purchase APIs (Clarithromycin and Azithromycin) from Yichang HEC Biochemical Manufacturing
Consideration:	RMB3,000,000

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## LETTER FROM GRAM CAPITAL

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Payment method: Yichang HEC Biochemical Manufacturing is required to deliver the APIs to the Company within 30 days after entering into the API Purchase Contract (IV). The Company will pay the relevant amount upon receipt of the APIs and receipt of the invoice from Yichang HEC Biochemical Manufacturing after passing the acceptance inspection.

With reference to the Board Letter, antibiotics-type APIs are subject to volatile market prices, with reference to the fair price of the market transactions, which is determined after arm's length negotiations between parties to ensure that such price is equal to the market price.

Upon our request, the Directors advised us the agreed unit cost of Clarithromycin API and Azithromycin API. In addition, the Directors also provided us the figures showing Yichang HEC Biochemical Manufacturing's sales of Clarithromycin API and Azithromycin API (i.e. sales amounts and sales volume) for FY2020. Based on such figures, the agreed unit cost of Clarithromycin API and Azithromycin API were less than the average costs of Yichang HEC Biochemical Manufacturing's sales of Clarithromycin API and Azithromycin API for FY2020.

As confirmed by the Directors, the consideration under API Purchase Contract (IV) of RMB3,000,000 is a maximum amount. When determined the maximum amount, the Directors took into account of historical purchase of Clarithromycin API and Azithromycin API by the Company from Yichang HEC Biochemical Manufacturing for the three years ended 31 December 2020. According to the aforesaid historical purchase amounts for the three years ended 31 December 2020, there is no material difference between the estimated maximum amount (i.e. RMB3,000,000) and the average historical purchase amounts of Clarithromycin API and Azithromycin API by the Company from Yichang HEC Biochemical Manufacturing for the three years ended 31 December 2020 (i.e. approximately RMB3,192,000). Accordingly, we consider the estimated maximum amounts to be reasonable.

Based on the above factors, we consider terms of the transactions contemplated under the API Purchase Contract (IV) are on normal commercial terms and are fair and reasonable.



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## LETTER FROM GRAM CAPITAL

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### ***B. The Entrusted Transactions***

#### ***B.1 Entrusted Inspection Contracts***

	<b>Entrusted Inspection Contract (I)</b>	<b>Entrusted Inspection Contract (II)</b>
Date	19 March 2021	
Parties	the Company; and Ruyuan HEC Pharmaceutical	The Company; and HEC Generic Drugs Development and Research
Term	From 19 March 2021 to 31 December 2021	
Nature of transaction	The Company agreed to engage Ruyuan HEC Pharmaceutical to conduct a quality control inspection on the talcum powder.	The Company commissioned HEC Generic Drugs Development and Research to conduct testing on the compatibility of injection packaging materials, production component compatibility, drug device compatibility, closure integrity research and analysis of excessive impurities structure during the stability process.
Payment term	The Company will pay the relevant fees to Ruyuan HEC Pharmaceutical after receiving the inspection report or the test report in December of each year.	the Company is required to make relevant payments to HEC Generic Drugs Development and Research within one week after receiving the research report from HEC Generic Drugs Development and Research
Pricing policy	The Group's connected persons adopt a "cost-plus" mechanism for charging inspection fees to the Company i.e. 10%–15% of the profit is charged.	

For our due diligence purpose, we searched the gross profit margin of companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange and is a participant in providing a variety of professional technology service industries. As the industry included companies provided inspection for other purposes, such as construction survey, design services, etc., we further excludes the irrelevant comparables. We therefore found that only Pony Testing International Group Co., Ltd. (SZ300887, "**Pony Testing**") and Centre Testing International Group Co. Ltd. (SZ300012, "**Centre Testing**") provided inspection services covering pharmaceutical products. According to Pony Testing's and Centre Testing's annual reports for FY2020, (i) Pony Testing recorded gross profit margin of health and environmental protection segment (i.e. testing in health, safety and environmental protection fields directly related to people's lives, such as food, agriculture, pharmaceutical products, etc.) of 47.49% for FY2020; and (ii) Centre Testing recorded gross profit margin of life science detection segment (including pharmaceutical products) of 48.04% for FY2020. As Ruyuan HEC Pharmaceutical

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## LETTER FROM GRAM CAPITAL

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and HEC Generic Drugs Development and Research will charge a smaller margin as compared to the aforesaid two comparable companies, we consider the range of margin of 10%-15% to be acceptable.

With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed “Internal Control Level” of the Board Letter. After discussing with the Company and having considered that procurement department, together with relevant departments such as production department and finance department will analyse the cost of relevant services (or to procure the connected person to provide cost of relevant products) before entering into of the transactions contemplated under the Entrusted Inspection Contracts to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. 10%–15% of the profit), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Entrusted Inspection Contracts.

Having considered the above factors, we are of the view that the terms of the transactions contemplated under the Entrusted Inspection Contracts are on normal commercial terms.

### B.1.1 Proposed annual caps

The table below demonstrates the proposed annual caps for FY2021:

	<b>Entrusted Inspection Contract (I)</b> <i>RMB'000</i>	<b>Entrusted Inspection Contract (II)</b> <i>RMB'000</i>
Proposed annual caps for FY2021	2,300	1,500

We understood that the Directors considered factors set out under the sub-section headed “Annual caps and basis of annual caps” under the section headed “1. Entrusted Inspection Contract (I) and Entrusted Inspection Contract (II)” of the Board Letter when determining the proposed annual caps for the entrusted inspection services for FY2021. As also advised by the Directors, there was no historical amounts under each of the contracts as the connected persons provided such services at nil consideration.

Upon our request, the Directors provided us with the estimated volume of samples to be inspected with price to be charged by connected persons for each service each time for FY2021. The Directors further advised us the cost of

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## LETTER FROM GRAM CAPITAL

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relevant services. We noted that such price to be charged by connected persons was in line with the pricing policy under each of the Power Supply Supplemental Agreement and 2021 Power Supply Contract.

As the estimated demand of inspection services was calculated by “the estimated volume of samples to be inspected” times “price to be charged by connected persons for each service each time”, we consider the estimated demand of inspection services to be reasonable. Accordingly, we consider the proposed annual caps for FY2021 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2021, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Entrusted Inspection Contracts. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Entrusted Inspection Contracts will correspond with the proposed annual caps.

### *B.2 Supplemental Entrusted Sewage Treatment Agreement*

Date:	19 March 2021
Parties:	The Company; and Yichang HEC Biochemical Manufacturing
Term:	From 19 March 2021 to 31 December 2021
Nature of transaction:	The Company agreed to engage Yichang HEC Biochemical Manufacturing for the treatment of sewage generated during the Company’s production process.
Payment method:	Settlement at the end of each month and payment of the relevant fees to Yichang HEC Biochemical Manufacturing
Pricing policy:	Yichang HEC Biochemical Manufacturing adopts a “cost-plus” mechanism for charging entrusted sewage treatment fees (such as staff costs, electricity charges, equipment, site, sewage treatment related raw materials, etc.), i.e. it charges a profit ranging from 10% to 15%.

For our due diligence purpose, we searched the gross profit margin of companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange and is a participant in the treatment and disposal of sewage sludge and the reuse of the industry after purification industry. Based on information obtained from Wind Financial Terminal, the gross profit margin of the aforesaid industry ranged from

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## LETTER FROM GRAM CAPITAL

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approximately 35% to 37% from 2016 to 2020. As the Yichang HEC Biochemical Manufacturing will charge a smaller margin as compared to the industry, we consider the range of margin of 10%-15% to be acceptable.

With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed “Internal Control Level” of the Board Letter. After discussing with the Company and having considered that procurement department, together with relevant departments such as production department and finance department will analyse the cost of relevant services (or to procure the connected person to provide cost of relevant products) before entering into of the transactions contemplated under the Supplemental Entrusted Sewage Treatment Agreement to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. 10% to 15%), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Supplemental Entrusted Sewage Treatment Agreement.

Having considered the above factors, we are of the view that the terms of the transactions contemplated under the Supplemental Entrusted Sewage Treatment Agreement are on normal commercial terms.

### B.2.1 Proposed annual caps

The table below demonstrates (i) the historical transactions amounts of the entrusted sewage treatment services provided by connected persons for the three years ended 31 December 2020; and (ii) the proposed annual cap for FY2021:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Historical transaction amounts	2,578.84	3,692.78	4,778.76
	<b>For the year ending 31 December 2021 RMB'000</b>		
Proposed annual cap for FY2021	3,600		

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## LETTER FROM GRAM CAPITAL

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We understood that the Directors considered factors set out under the sub-section headed “Annual cap and basis of annual cap” under the section headed “2. Supplemental Entrusted Sewage Treatment Agreement” of the Board Letter when determining the proposed annual caps for the entrusted sewage treatment services for FY2021, included (i) the historical transaction amount; (ii) the Group’s demand for the year ending 31 December 2021; and (iii) the Group’s business development strategies.

According to the above table, the estimated amounts of entrusted sewage treatment services for FY2021 (i.e. RMB3,600,000) represented a substantial decrease of approximately 24.7% as compared to the historical transaction amounts of RMB4,778,760 for FY2020. As advised by the Directors, the aforesaid decrease in estimated demand in entrusted sewage treatment services was mainly due to the expected decrease in producing of APIs as the Group has certain APIs as inventory. Upon our request, we obtained information showing volume of entrusted sewage treatment (in tonne). We noted that sewage relating to the produce of Kewei accounted for approximately 53%, 80% and 55% to total volume of sewage for FY2018, FY2019 and FY2020 respectively. We understood from the Directors that they expected the sales volume of Kewei to be gradually resumed in FY2021 (by way of the sale of Kewei which was already manufactured first). In addition, multiple products of the Group have been approved for launch in end of 2020 and beginning of 2021. Accordingly, the Directors consider the decrease in demand of entrusted sewage treatment services for FY2021 will be partially offset by the demand of entrusted sewage treatment services for producing new launched products.

Based on the historical transaction amounts of the entrusted sewage treatment services provided by connected persons for the three years ended 31 December 2020, the average transaction amounts was approximately RMB3.68 million. The estimated amounts of entrusted sewage treatment services for FY2021 is close to the average transaction amounts for the three years ended 31 December 2020.

Based on the above factors, we consider the estimated amounts of entrusted sewage treatment services for FY2021 to be reasonable. Accordingly, we consider the proposed annual cap for FY2021 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2021, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Supplemental Entrusted Sewage Treatment Agreement. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Supplemental Entrusted Sewage Treatment Agreement will correspond with the proposed annual cap.

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## LETTER FROM GRAM CAPITAL

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### *B.3 Entrusted Processing Framework Agreements*

	<b>Entrusted Processing Framework Agreement (I)</b>	<b>Entrusted Processing Framework Agreement (II)</b>
Date	19 March 2021	
Parties	The Company; and Sunshine Lake Pharma	The Company; and Ruyuan HEC Pharmaceutical
Term	From 19 March 2021 to 31 December 2021	
Nature of transaction	The Company agreed to engage Sunshine Lake Pharma to process certain pharmaceutical products, including Clarithromycin Tablets, Levofloxacin Tablets, Moxifloxacin Hydrochloride Tablets, Olmesartan Tablets, Alogliptin Benzoate Tablets, Duloxetine Hydrochloride Enteric-coated Capsules, Aripiprazole Tablet, Febuxostat Tablets, Tadalafil Tablets, Ticagrelor Tablets, Olanzapine Tablets, Rosuvastatin Calcium Tablets, Linagliptin Tablets, Sitagliptin Tablets and Entacapone Tablets	The Company agreed to engage Ruyuan HEC Pharmaceutical to process the Rongliflozin API
Payment term	The Company will pay the relevant amount within 30 days after it receives the processed pharmaceutical products and pass the inspection.	
Pricing policy	A “cost-plus” mechanism is adopted for the price of the processing fee payable by Group to the Group’s connected persons. In addition to the necessary costs and expenses incurred for the processing services, the Group’s connected persons charges the Group an additional fee within approximately 10% of the processing fee.	

For our due diligence purpose, we searched the gross profit margin of companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange and is a participant in the industry engaged in medical research and development outsourcing services. Based on information obtained from Wind Financial Terminal, the gross profit margin of the aforesaid industry ranged from approximately 33% to 41% from 2016 to 2020. As Sunshine Lake Pharma and Ruyuan HEC Pharmaceutical will charge a smaller margin as compared to the industry, we consider the range of margin within approximately 10% to be acceptable.

With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out

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## LETTER FROM GRAM CAPITAL

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under the section headed “Internal Control Level” of the Board Letter. After discussing with the Company and having considered that procurement department, together with relevant departments such as production department and finance department will analyse the cost of relevant services (or to procure the connected person to provide cost of relevant products) before entering into of the transactions contemplated under the Entrusted Processing Framework Agreements to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. within approximately 10% of the processing fee), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Entrusted Processing Framework Agreements.

Having considered the above factors, we are of the view that the terms of the transactions contemplated under the Entrusted Processing Framework Agreements are on normal commercial terms.

### B.3.1 Proposed annual caps

The table below demonstrates (i) the historical transactions amounts of the entrusted processing services provided by connected persons for the three years ended 31 December 2020; and (ii) the proposed annual cap for FY2021:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Historical transaction amounts	Nil	Nil	71,222.92
	<b>Entrusted Processing Framework Agreement (I) RMB'000</b>	<b>Entrusted Processing Framework Agreement (II) RMB'000</b>	
Proposed annual caps for FY2021	105,280	25,050.7	

We understood that the Directors considered factors set out under the subsection headed “Annual caps and basis of annual caps” under the section headed “3. Entrusted Processing Framework Agreement (I) and Entrusted Processing Framework Agreement (II)” of the Board Letter when determining the proposed annual caps for the entrusted inspection services for FY2021.



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## LETTER FROM GRAM CAPITAL

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According to the above table, the estimated amounts of entrusted processing services for FY2021 (i.e. RMB130,330,700 in aggregate) represented a significant increase as compared to the historical transaction amounts of RMB71,222,920 for FY2020. As advised by the Directors, the aforesaid increase in estimated demand in entrusted processing services was mainly due to the estimated increase in sales volume of pharmaceutical products as results of winning bid of centralized procurement and newly launched pharmaceutical products in FY2021.

### B.3.1.1 Proposed annual cap under the Entrusted Processing Framework Agreement (I)

In respect of proposed annual cap for the year ending 31 December 2021 under the Entrusted Processing Framework Agreement (I) (i.e. RMB105,280,000), we obtained a list from the Company showing the Company's estimated volume of different pharmaceutical products together with entrusted processing costs.

According to the list, (i) there were five types of pharmaceutical products which won bid of centralized procurement; and (ii) the estimated entrusted processing amounts for aforesaid five types of pharmaceutical products accounted for approximately 69% to the total estimated amounts of entrusted processing services for FY2021 under the Entrusted Processing Framework Agreement (I) (i.e. RMB105,280,000).

For our due diligence purpose, we searched the five types of pharmaceutical products and noted that such products won bid of centralized procurement in January 2020, August 2020 and February 2021. The five types of pharmaceutical products were Moxifloxacin Hydrochloride Tablet (鹽酸莫西沙星片), Clarithromycin Tablets (克拉霉素片), Olmesartan Medoxomil Tablets (奧美沙坦酯片), Levofloxacin Tablets (左氧氟沙星片) and Duloxetine Hydrochloride Enteric-coated Capsules (鹽酸度洛西汀腸溶膠囊).

Upon our further request, the Directors provided estimated volume of pharmaceutical products which will be produced under the entrusted processing services. As advised by the Directors, such estimated volume was determined based on, among other things, the fact that the Group is required to produce sufficient amounts for centralized procurement purpose, otherwise the Group will be removed from the centralized procurement and forbidden to participate in certain years. We noted that the estimated entrusted processing amounts for aforesaid five types of pharmaceutical products was calculated by the estimated volume times their respective cost.

The estimated entrusted processing amount for newly approved pharmaceutical products or products expected to be launched accounted for approximately 31% to the total estimated amounts of entrusted



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## LETTER FROM GRAM CAPITAL

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processing services for FY2021 under the Entrusted Processing Framework Agreement (I) (i.e. RMB105,280,000). Upon our further request, the Directors provided estimated volume of pharmaceutical products which will be produced under the entrusted processing services. As advised by the Directors, such estimated volume was determined based on, among other things, the sales target of the Company's sales team. We noted that the estimated entrusted processing amounts for newly approved pharmaceutical products or products expected to be launched accounted was calculated by the estimated volume times their respective cost.

Based on the above factors, we consider the estimated amounts of entrusted processing services for FY2021 to be reasonable. Accordingly, we consider the proposed annual cap for FY2021 to be fair and reasonable.

### B.3.1.2 Proposed annual cap under the Entrusted Processing Framework Agreement (II)

Pursuant to the Entrusted Processing Framework Agreement (ii), the Company agreed to engage Ruyuan HEC Pharmaceutical to process the Rongliflozin (榮格列淨) API.

The Directors further advised the expected volume of Rongliflozin (榮格列淨) API together with per unit cost.

We understood that the Company acquired the Rongliflozin L-Pyroglutamic Acid together with the entire equity interests of the products within the PRC from Sunshine Lake Pharma in 2019. Currently, the Rongliflozin L-Pyroglutamic Acid is in the progress of Phase III clinical trial study, which is expected to be completed in June 2022. The process of the Rongliflozin (榮格列淨) API is mainly for the purpose of Phase III clinical trial study and other requirement for the obtaining drug licenses and commencing commercial production.

Based on the above factors, we consider the expected volume of Rongliflozin (榮格列淨) API to be justifiable. Accordingly, we consider the proposed annual cap, which was calculated by the expected volume times per unit cost, to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2021, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Entrusted Processing Framework Agreements. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Entrusted Processing Framework Agreements will correspond with the proposed annual caps.

#### 4. Listing Rules implication regarding the continuing connected transactions

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the continuing connected transactions must be restricted by their respective proposed annual cap for the period; (ii) the terms of the continuing connected transactions (including their respective annual caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the continuing connected transactions of the Company must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the continuing connected transactions of the Company (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded their respective annual caps.

In the event that the total amounts of the continuing connected transactions of the Company are anticipated to exceed their respective annual caps, or that there is any proposed material amendment to the terms of their relevant agreements, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the continuing connected transactions of the Company and thus the interest of the Independent Shareholders would be safeguarded.

#### 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) the Transactions are conducted in the ordinary and usual course of business of the Group and 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.

## 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 (%)
<b>Directors</b>					
TANG Xinfa	H Shares	Beneficial owner	130,400 (L)	0.019%	0.015%
CHEN Yanguì	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%
<b>Supervisors</b>					
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.* <sup>2</sup>	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 <sup>2</sup>	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)

# APPENDIX I

# GENERAL INFORMATION

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 (%)
Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. <sup>2</sup>	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. <sup>2</sup>	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 <sup>3</sup>	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)
Mr. Zhang Yushuai <sup>4</sup>	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 <sup>5</sup>	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 <sup>6</sup>	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 <sup>6</sup>	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 <sup>6</sup>	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)

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 (%)
Stephen A. Schwarzman <sup>7</sup>	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. <sup>7</sup>	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. <sup>7</sup>	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 Xinfu	Chairman and non-executive Director of the Company	<p>Director and general manager of Shenzhen HEC Industrial, 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;</p> <p>Director of HEC Pharm Co., Ltd., a subsidiary of Shenzhen HEC Industrial.</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, Mr. TANG Xinfu, the chairman of the Board and non-executive Director of the Company, is deemed to be interested in the transaction contemplated under the Purchase Transactions (including the annual caps) and Clarithromycin and Azithromycin Purchase Transaction and the Entrusted Transactions (including the annual caps).

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:

<b>Name</b>	<b>Qualification</b>
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) API Purchase Contract (I);
- (b) API Purchase Contract (II);
- (c) API Purchase Contract (III);
- (d) API Purchase Contract (IV);
- (e) Packaging Materials Purchase Contract;
- (f) Supplemental Chemical Materials and Hardware Materials Purchase Agreement;
- (g) Steam Supply Supplemental Agreement (I);
- (h) Steam Supply Supplemental Agreement (II);
- (i) 2021 Steam Supply Contract;
- (j) Power Supply Supplemental Agreement;

- (k) 2021 Power Supply Contract;
- (l) Industrial Products Sale and Purchase Contract (I);
- (m) Industrial Products Sale and Purchase Contract (II);
- (n) Entrusted Inspection Contract (I);
- (o) Entrusted Inspection Contract (II);
- (p) Supplemental Entrusted Sewage Treatment Agreement;
- (q) Entrusted Processing Framework Agreement (I);
- (r) Entrusted Processing Framework Agreement (II);
- (s) the letter of recommendation from the Independent Board Committee dated 28 May 2021, the text of which is set out on pages 33 to 34 of this circular;
- (t) the letter of advice from Gram Capital dated 28 May 2021, the text of which is set out on pages 35 to 72 of this circular;
- (u) the written consent of, Gram Capital, which was referred to in the section headed “Qualification of Experts and Consents” in this appendix; and
- (v) a copy of this circular.