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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. ENERGY PURCHASE FRAMEWORK AGREEMENT;**
- 2. APIs PURCHASE AGREEMENT;**
- 3. PACKAGING AND PRODUCTION MATERIALS PURCHASE FRAMEWORK AGREEMENT;**
- 4. EQUIPMENT PURCHASE AND CIVIL CONSTRUCTION FRAMEWORK AGREEMENT;**
- 5. ENTRUSTED PROCESSING FRAMEWORK AGREEMENT;**
- 6. LEASING AND OTHER SERVICES FRAMEWORK AGREEMENT;**
- 7. APIs AND PHARMACEUTICAL PRODUCTS SALES FRAMEWORK AGREEMENT;**
- 8. ENTRUSTED PRODUCTION AND INSPECTION SERVICES FRAMEWORK AGREEMENT**

**AND**

### **NOTICE OF 2022 FIRST EXTRAORDINARY GENERAL MEETING**

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



**Gram Capital Limited**  
**嘉林資本有限公司**

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A letter from the Board is set out on pages 6 to 46 of this circular. A letter from Independent Financial Advisor containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 49 to 96 of this circular and a letter from the Independent Board Committee is set out on pages 47 to 48 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 Monday, 22 August 2022, together with the form of proxy for use at the EGM were despatched to the Shareholders on 2 August 2022. Such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.hec-changjiang.com](http://www.hec-changjiang.com)).

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 Sunday, 21 August 2022) 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.

2 August 2022

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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 27 April 2022 made by the Company in relation to, among others, the Continuing Connected Transaction Agreements and their respective proposed annual cap
“APIs and Pharmaceutical Products Sales Framework Agreement”	the APIs and pharmaceutical products sales framework agreement entered into between the Company and Shenzhen HEC Industrial on 27 April 2022
“APIs Purchase Agreement”	the APIs purchase agreement entered into between the Company and Shenzhen HEC Industrial on 27 April 2022
“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
“Continuing Connected Transactions”	the transactions contemplated under the Continuing Connected Transaction Agreements
“Continuing Connected Transactions Agreements”	the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Leasing and Other Services Framework Agreement, the APIs and Pharmaceutical Products Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) subscribed for or credited as fully paid in RMB

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## DEFINITIONS

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“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 2022 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 Monday, 22 August 2022
“EGM Notice”	the notice of the EGM dated 2 August 2022 convening the EGM
“Energy Purchase Framework Agreement”	the energy purchase framework agreement entered into between the Company and Shenzhen HEC Industrial on 27 April 2022
“Entrusted Processing Framework Agreement”	the entrusted processing framework agreement entered into between the Company and Shenzhen HEC Industrial on 27 April 2022
“Entrusted Production and Inspection Services Framework Agreement”	the entrusted production and inspection services framework agreement entered into between the Company and Shenzhen HEC Industrial on 27 April 2022
“Equipment Purchase and Civil Construction Framework Agreement”	the equipment purchase and civil construction framework agreement entered into between the Company and Shenzhen HEC Industrial on 27 April 2022
“Group”	the Company and its subsidiaries
“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 an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial
“HEC Medicine Development and Research”	Dongguan HEC Medicine Development and Research Co., Ltd. (東莞東陽光藥物研發有限公司), a company incorporated in the PRC, being an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial

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## DEFINITIONS

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“H Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) listed on the Stock Exchange and is (are) subscribed for and traded in Hong Kong dollars
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee (comprising Mr. TANG Jianxin, Mr. ZHAO Dayao, Ms. XIANG Ling and Mr. LI Xuechen, all being independent non-executive Directors) established by the Company to advise the Independent Shareholder(s) in respect of the Continuing Connected Transaction Agreements and their respective proposed annual cap
“Independent Financial Advisor” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial advisor appointed by the Company to advise the Independent Board Committee and the Independent Shareholder(s) in respect of the Continuing Connected Transaction Agreements and their respective proposed annual cap
“Independent Shareholders”	shareholder(s) other than Shenzhen HEC Industrial and its associate(s), such as Sunshine Lake Pharma and HEC (Hong Kong) Sales Co., Limited, who are not involved in or interested in the Continuing Connected Transaction Agreements and their respective proposed annual cap
“Latest Practicable Date”	27 July 2022, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
“Leasing and Other Services Framework Agreement”	the leasing and other services framework agreement entered into between the Company and Shenzhen HEC Industrial on 27 April 2022
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Packaging and Production Materials Purchase Framework Agreement”	the packaging and production materials purchase framework agreement entered into between the Company and Shenzhen HEC Industrial on 27 April 2022

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## DEFINITIONS

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“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
“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), a company incorporated in the PRC, being an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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 direct non-wholly owned subsidiary of Shenzhen HEC Industrial
“Shares”	issued shares of the Company
“Shareholder(s)”	holders of ordinary shares of the Company
“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 a holding company of Sunshine Lake Pharma as at the Latest Practicable Date
“Shenzhen HEC Industrial Group”	Shenzhen HEC Industrial and its subsidiaries
“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, a controlling Shareholder of the Company and an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial
“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 direct non-wholly owned subsidiary of Shenzhen HEC Industrial

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## DEFINITIONS

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“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
“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 direct non-wholly owned subsidiary of Shenzhen HEC Industrial
“Yidu Construction”	Yidu Shanchengshuidu Project Construction Co., Ltd. (宜都山城水都建築工程有限公司), a company incorporated in the PRC, being a subsidiary of Shenzhen HEC Industrial
“%”	per cent

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

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

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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 Yangui  
Mr. LI Shuang

*Non-executive Directors:*

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

*Independent Non-executive Directors:*

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

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

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

**Principal Place of Business  
in Hong Kong:**

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

2 August 2022

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

- 1. ENERGY PURCHASE FRAMEWORK AGREEMENT;**
- 2. APIs PURCHASE AGREEMENT;**
- 3. PACKAGING AND PRODUCTION MATERIALS PURCHASE  
FRAMEWORK AGREEMENT;**
- 4. EQUIPMENT PURCHASE AND CIVIL CONSTRUCTION  
FRAMEWORK AGREEMENT;**
- 5. ENTRUSTED PROCESSING FRAMEWORK AGREEMENT;**
- 6. LEASING AND OTHER SERVICES FRAMEWORK AGREEMENT;**
- 7. APIs AND PHARMACEUTICAL PRODUCTS SALES  
FRAMEWORK AGREEMENT;**
- 8. ENTRUSTED PRODUCTION AND INSPECTION SERVICES  
FRAMEWORK AGREEMENT**

**AND**

**NOTICE OF 2022 FIRST EXTRAORDINARY GENERAL MEETING**



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## LETTER FROM THE BOARD

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### INTRODUCTION

Reference is made to the Announcement. The purpose of this circular is to provide you with information necessary to enable you to make an informed decision on whether to vote for or against or abstain from voting the ordinary resolutions to be proposed at the EGM relating to the Continuing Connected Transactions and their respective proposed annual cap.

### CONTINUING CONNECTED TRANSACTIONS PROVIDED BY SHENZHEN HEC INDUSTRIAL GROUP TO THE GROUP

#### 1. Energy Purchase Framework Agreement

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to supply of electricity and steam by Shenzhen HEC Industrial.

The principal terms of the Energy Purchase Framework Agreement are as follows:

Date	:	27 April 2022
Parties	:	the Company (for itself and on behalf of its subsidiaries); and  Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 April 2022 to 31 December 2022
Nature of transaction	:	The Company agreed to purchase electricity and steam power (“ <b>Energy</b> ”) required for its production from Shenzhen HEC Industrial.
Payment method	:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
Condition Precedents	:	The Energy Purchase Framework Agreement is conditional upon the satisfaction of the following conditions precedent:  (i) the due execution of the Energy Purchase Framework Agreement by both parties; and  (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Energy Purchase Framework Agreement and the proposed annual cap contemplated thereunder in accordance with the Listing Rules.

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## LETTER FROM THE BOARD

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Relevant subsidiaries of both parties will enter into separate agreements which will set out the specific terms and conditions according to the principles provided in the Energy Purchase Framework Agreement.

### *Pricing policy*

Purchase price for Energy will be determined in accordance with (i) the reply letter from the Price Bureau of Yichang Municipal in relation to the electricity supply price in direct supply district by Yichang HEC Power Plant Co., Ltd.\* (宜昌東陽光火力發電有限公司) (“**Yichang HEC Power Plant**”), a direct non-wholly owned subsidiary of Shenzhen HEC Industrial, from time to time; and (ii) the price for similar enterprises as stipulated in the price list for steam supply to enterprise from Price Bureau of Yichang Municipal from time to time, whereas:

- (a) the electricity supply price in accordance with the benchmark price of approximately RMB0.3329 per kWh, 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), which stipulates that the power supply tariff in the direct supply zone shall not be lower than 80% of the benchmark on-grid tariff in Hubei Province for the same period and shall not be higher than the benchmark on-grid tariff of the Hubei Province for the same period; and
- (b) the steam supply price is determined with the range of approximately RMB130 per ton to RMB260 per ton, which were the price charged by Yichang HEC Power Plant and Yichang HEC Biochemical Manufacturing Co. Ltd. (宜昌東陽光生化製藥有限公司), a subsidiary of Shenzhen HEC Industrial, to the Group historically.

### *Proposed annual cap and determination basis*

The Company estimates that the annual cap under the Energy Purchase Framework Agreement for the year ending 31 December 2022 is RMB56,000,000. In considering the proposed annual caps under the Energy Purchase Framework Agreement, the Directors have taken into account a number of factors, including (1) the historical transaction amounts; (2) the Group’s estimated production for the year ending 31 December 2022; and (3) the Group’s business development.

## LETTER FROM THE BOARD

### *Historical annual caps and transaction amounts*

The historical annual caps and transaction amounts for the purchase of Energy from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2019, 2020 and 2021, for the period ended 27 April 2022 and for the six months ended 30 June 2022 are set out below:

	For the year ended 31 December 2019			For the year ended 31 December 2020			For the year ended 31 December 2021			For the period ended 27 April 2022	For six months ended 30 June 2022
	<i>Historical</i>			<i>Historical</i>			<i>Historical</i>			<i>Historical</i>	<i>Historical</i>
	Annual cap	transaction amount	Utilisation rate	Annual cap	transaction amount	Utilisation rate	Annual cap	transaction amount	Utilisation rate	transaction amount	transaction amount
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000
Historical annual caps and transaction amounts for purchase of Energy from Shenzhen HEC Industrial Group	41,940 <sup>(1)</sup>	19,930 <sup>(1)</sup>	47.52%	49,518.40 <sup>(1)</sup>	22,396.31 <sup>(1)</sup>	45.23%	55,700 <sup>(2)</sup>	35,679.06 <sup>(2)</sup>	64.06%	291.50	17,189

*Notes:*

- (1) On 22 December 2017, the Company entered into the 2018-2020 Energy Procurement Framework Agreement with Shenzhen HEC Industrial, pursuant to which, the Company agreed to purchase electricity and steam from Shenzhen HEC Industrial and/or its subsidiaries (other than the Group). The term of the 2018-2020 Energy Procurement Framework Agreement was three years, effective from 1 January 2018 to 31 December 2020. On 24 August 2018, the Board resolved to adjust the annual caps for the continuing connected transaction under the 2018-2020 Energy Procurement Framework Agreement. For details, please refer to the announcements dated 22 December 2017 and 24 August 2018, 2019 annual report and 2020 annual report of the Company.
- (2) On 19 March 2021, (i) the Company and Yichang HEC Power Plant entered into Steam Supply Supplemental Agreement (I), pursuant to which, the Company agreed to purchase steam from Yichang HEC Power Plant; (ii) the Company and Yichang HEC Biochemical Manufacturing (a direct non-wholly owned subsidiary of Shenzhen HEC Industrial) entered into Steam Supply Supplemental Agreement (II), pursuant to which, the Company agreed to purchase steam from Yichang HEC Biochemical Manufacturing; (iii) Yichang HEC Pharmaceutical Manufacturing (a subsidiary of the Company) and Yichang HEC Power Plant entered into the 2021 Steam Supply Contract, pursuant to which, the Company agreed to purchase steam from Yichang HEC Power Plant; (iv) the Company and Yichang HEC Power Plant entered into the Power Supply Supplemental Agreement, pursuant to which, the Company has agreed to purchase electricity from Yichang HEC Power Plant; and (v) Yichang HEC Pharmaceutical Manufacturing and Yichang HEC Power Plant entered into the 2021 Power Supply Contract, pursuant to which, Yichang HEC Pharmaceutical Manufacturing agreed to purchase electricity from Yichang HEC Power Plant. For details, please refer to the announcement dated 19 March 2021, the circular dated 28 May 2021 and 2021 annual report of the Company.

As shown in the above table, the utilisation rates of historical annual caps were approximately 47.52%, 45.23% and 64.06% for the three years ended 31 December 2021 respectively. The low utilization rate of the annual caps was due to the fact that (i) in 2018, the Group launched a new generic drug production plant and a new insulin production plant, which was expected to further increase in demand for electricity and steam in the future, and therefore a substantial increase in the annual caps for the two

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## LETTER FROM THE BOARD

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years ended 31 December 2020. Although the Group's results increased significantly year-on-year in 2019, which led to the increase in the actual amount of electricity and steam supplied to procurement of Shenzhen HEC Industrial Group accordingly, but the increase was less than the annual cap as expected; (ii) in 2020, the mobility of China's domestic population has declined due to the impact of the COVID-19 pandemic (the "**pandemic**"), and the number of medical activities, prescriptions and sales volume of drugs in hospitals had also decreased accordingly. The Group's core product, Kewei, is a prescription drug mainly sold in hospitals of different tiers. The sales volume of Kewei had also decreased due to the impact of the pandemic. In addition, due to the impact of the pandemic prevention and control policies, the factories of the Group were suspended from time to time, resulting in a significant decrease in the amount of procurement of electricity and steam between the Group and Shenzhen HEC Industrial Group, and the actual transaction amount was less than the expected annual cap; and (iii) At the beginning of 2021, the Group's new insulin production plant at Yidu Base Area No. 3 commenced production, and the designed production capacity of the insulin production plan was expected to be significantly increased. In addition, the Group 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. of the Phase I HEC Project involved in innovative drugs and generic drugs, which was expected to commence trial production in 2021. In view of the above, the Group previously expected that the demand for steam and electricity in 2021 would increase significantly. However, due to the spread of the pandemic overseas and the resurgence of the pandemic in the PRC, the actual production capacity of the Group had been significantly reduced, and the construction work and production had been suspended from time to time, resulting in a significant decrease in the volume of procurement of electricity and steam with Shenzhen HEC Industrial Group, thus it was not as high as the expected transaction amount.

Despite of the historical amounts for the purchase of Energy from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for the year ended 31 December 2022, when comparing with the historical amounts of the similar transactions for the first four months of 2021, it also accounted for less than 1% of its actual amount for the year ended 31 December 2021.

Notwithstanding of the low utilization rate of the annual caps in the past, in light of the increase of operating income recorded by the Group of approximately 588% for the first two months of 2022 as compared to the same period in 2021, mainly due to the overall stability of the pandemic prevention and control in China, the increasingly normalized flow of personnel and daily social activities, and the significant recovery in the overall flow of people, number of diagnosis and treatment activities and prescription volume of terminal medical institutions. In addition, the Group vigorously promoted academic promotion and new channel expansion, and the sales volume of drugs showed a very good recovery trend. Further, (i) according to the construction plan of the Group in 2022, new workshop carries out production, and the electricity and steam consumption of the relevant projects will increase accordingly; (ii) in 2021, the Group participated in the tender process organized by the National Organization Office for the Centralized

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## LETTER FROM THE BOARD

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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). A number of products of the Group won the tender for centralized procurement, which in turn, the corresponding demand of electricity and steam for production of pharmaceutical products by the Group in 2022 will substantially increase. The Group expects to procure electricity and steam from Shenzhen HEC Industrial Group for its production with transaction amount of RMB35,200,000 and RMB20,700,000, respectively in 2022. Therefore, the Board considers that it is necessary to set a higher proposed annual cap for the year ended 31 December 2022.

### *Reasons for the transaction*

Historically, the Group purchased Energy from Shenzhen HEC Industrial Group for the daily production of pharmaceutical preparations. The Group does not own any boilers for steam production and does not own any power plant to generate electricity. As the power plant of Shenzhen HEC Industrial Group is close to the production facilities of the Group, it is commercially desirable to continue to purchase Energy from them.

The Board (including the independent non-executive Directors) is of the view that the terms of the Energy Purchase Framework Agreement and the transactions contemplated thereunder (including the proposed annual cap) are on normal commercial terms and in the ordinary and usual course of business of the Group, and the proposed annual caps are on normal commercial terms and fair and reasonable and in the interests of the Company and Shareholders as a whole.

## **2. APIs Purchase Agreement**

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into an agreement in relation to purchase of certain active pharmaceutical ingredients from Shenzhen HEC Industrial.

The principal terms of the APIs Purchase Agreement are as follows:

Date	:	27 April 2022
Parties	:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 April 2022 to 31 December 2022
Nature of transaction	:	The Company agreed to purchase certain active pharmaceutical ingredients (“APIs”) such as Aripiprazole, Rivaroxaban, Escitalopram Oxalate, Clarithromycin from Shenzhen HEC Industrial.

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## LETTER FROM THE BOARD

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- Payment method : The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
- Condition Precedents : The APIs Purchase Agreement is conditional upon the satisfaction of the following conditions precedent:
- (i) the due execution of the APIs Purchase Agreement by both parties; and
  - (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the APIs Purchase Agreement and the proposed annual cap contemplated thereunder in accordance with the Listing Rules.

Relevant subsidiaries of both parties will enter into separate agreements which will set out the specific terms and conditions according to the principles provided in the APIs Purchase Agreement.

### *Pricing policy*

In selecting the APIs suppliers, the Company will obtain quotations from Shenzhen HEC Industrial Group 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 Shenzhen HEC Industrial Group will be fair and reasonable, on normal commercial terms, and in any event shall be no less favourable to the Group than those available from independent third parties. The Directors are of the view that by requiring the Shenzhen HEC Industrial Group to offer prices and terms similar to those offered by two other independent third-party suppliers under the APIs 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.

### *Proposed annual cap and determination basis*

The Company estimates that the annual cap under the APIs Purchase Agreement for the year ending 31 December 2022 is RMB40,000,000. In considering the proposed annual caps under the APIs Purchase Agreement, the Directors have taken into account a number of factors, including (1) the historical transaction amounts; (2) the estimated market demand for the year ending 31 December 2022; and (3) the Group's business development strategies.

## LETTER FROM THE BOARD

### *Historical annual caps and transaction amounts*

The historical annual caps and transaction amounts for the purchase of APIs from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2019, 2020 and 2021, for the period ended 27 April 2022 and for the six months ended 30 June 2022 are set out below:

	For the year ended 31 December 2019			For the year ended 31 December 2020			For the year ended 31 December 2021			For the period ended 27 April 2022	For six months ended 30 June 2022
	<i>Historical</i>			<i>Historical</i>			<i>Historical</i>			<i>Historical</i>	<i>Historical</i>
	Annual cap	transaction amount	Utilisation rate	Annual cap	transaction amount	Utilisation rate	Annual cap	transaction amount	Utilisation rate	transaction amount	transaction amount
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000
Historical annual caps and transaction amounts for purchase of APIs from Shenzhen HEC Industrial Group	6,400 <sup>(1)</sup>	3,090 <sup>(1)</sup>	48.28%	9,000 <sup>(1)</sup>	8,803 <sup>(1)</sup>	97.81%	32,299.60 <sup>(2)</sup>	22,935.47 <sup>(2)</sup>	71.01%	123.80	18,996

*Notes:*

- (1) On 22 December 2017, the Company entered into the 2018-2020 Framework API Purchase Agreement with Shenzhen HEC Industrial, pursuant to which, the Company agreed to purchase certain APIs from Shenzhen HEC Industrial and/or its subsidiaries (other than the Group) for the production of pharmaceutical products, mainly azithromycin, clarithromycin and roxithromycin products. The term of the 2018-2020 Framework API Purchase Agreement will be three years, effective from 1 January 2018 to 31 December 2020. On 29 October 2019, the Board resolved to adjust the annual caps for the continuing connected transactions under the 2018-2020 Framework API Purchase Agreement. For details, please refer to the announcement dated 29 October 2019, 2019 annual report and 2020 annual report of the Company.
- (2) On 19 March 2021, (i) Dongguan Yangzhikang (a direct wholly-owned subsidiary of the Company) entered into the API Purchase Contract (I) with Ruyuan HEC Pharmaceutical (an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial), pursuant to which, Dongguan Yangzhikang agreed to purchase APIs from Ruyuan HEC Pharmaceutical; (ii) Dongguan Yangzhikang and Yichang HEC Biochemical Manufacturing (a direct non-wholly owned subsidiary of Shenzhen HEC Industrial) entered into the API Purchase Contract (II), pursuant to which, Dongguan Yangzhikang agreed to purchase APIs from Yichang HEC Biochemical Manufacturing; (iii) the Company entered into the API Purchase Contract (III) with Ruyuan HEC Pharmaceutical, pursuant to which, the Company agreed to purchase APIs from Ruyuan HEC Pharmaceutical; and (iv) the Company and Yichang HEC Biochemical Manufacturing entered into the API Procurement Contract (IV), pursuant to which the Company agreed to purchase APIs such as clarithromycin and azithromycin from Yichang HEC Biochemical Manufacturing. For details, please refer to the announcement dated 19 March 2021, the circular dated 28 May 2021 and 2021 annual report of the Company.

As shown in the above table, the utilisation rates of historical annual caps were approximately 48.28%, 97.81% and 71.01% for the three years ended 31 December 2021 respectively. The fluctuating utilization rate of the annual caps was due to the fact that (i) in 2019, based on the actual business operation of the Group, the expansion of production scale will lead to an expected increase in demand for certain APIs, and therefore the annual cap for the two years ended 31 December 2020 have been adjusted upwards.



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## LETTER FROM THE BOARD

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Although the Group's results increased significantly year-on-year in 2019, which led to the increase in the actual amount of active pharmaceutical ingredient procurement with Shenzhen HEC Industrial Group accordingly, but the increase was less than the expected adjusted annual cap, (ii) in 2021, the Group considered that (1) in 2020, the Group participated in the tender process for the second batch of National Centralized Procurement of Pharmaceuticals and the third batch of National Centralized Procurement of Pharmaceuticals 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 Group's moxifloxacin hydrochloride tablets and clarithromycin tablets won the tender for the centralized procurement, respectively; (2) it is expected that the Company would obtain approval for registration of work-in-progress products in 2021, and the estimated procurement volume of APIs for the production of new products and registered work-in-progress products would also increase accordingly. In view of the estimated increase in volume of procurement in APIs for the production of centralized procurement products, new products and registered work-in-progress products, the Group set a higher annual cap at the beginning of 2021. However, due to the spread of the pandemic overseas and the resurgence of the pandemic in China, the number of sales volume of the Group's tender winning products decreased significantly, and the progress of the registered work-in-progress was suspended or delayed, resulting in a decrease in the volume of procurement of the Group's APIs with Shenzhen HEC Industrial Group, thus it was not as high as the transaction amount expected at the beginning of the year.

Despite of the historical amounts for the purchase of APIs from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for the year ended 31 December 2022, when comparing with the historical amounts of the similar transactions for the first four months of 2021, it also accounted for less than 1% of its actual amount for the year ended 31 December 2021.

Notwithstanding of the fluctuating utilization rate of the annual caps in the past, in light of the increase of operating income recorded by the Group of approximately 588% for the first two months of 2022 as compared to the same period in 2021, mainly due to the overall stability of the pandemic prevention and control in China, the increasingly normalized flow of personnel and daily social activities, and the significant recovery in the overall flow of people, number of diagnosis and treatment activities and prescription volume of terminal medical institutions. In addition, the Group vigorously promoted academic promotion and new channel expansion, and the sales volume of drugs showed a very good recovery trend. In 2020 and 2021, the Group participated in a number of tender processes 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), and a number of products, won the tender for National Centralized Procurement Pharmaceuticals. For those products, such as Aripiprazole Tablets (阿立哌唑片), Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片), which won the tender of National Centralized Procurement of Pharmaceuticals in 2021, the Group expects to purchase relevant APIs to produce such products from Shenzhen HEC Industrial Group with a transaction amount of approximately RMB36,600,000. Other than that, the Company also expects to win the proposed centralized procurement for



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## LETTER FROM THE BOARD

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Aripiprazole Orally Disintegrating Tablets (阿立哌唑口崩片) in 2022 and will purchase relevant APIs from Shenzhen HEC Industrial Group for such production. In 2022, with the stabilization of the pandemic and the recovery of market conditions, coupled with the increase in the Group's marketing and offline sales activities, it is expected that the product sales volume will increase significantly year-on-year, and the demand for APIs of related products will also increase, which in turn, the corresponding demand of APIs for production of pharmaceutical products by the Company will substantially increase. Therefore, the Board considers that it is necessary to set a higher proposed annual cap for the year ended 31 December 2022.

### *Reasons for the transaction*

Historically, the Group purchased certain APIs from Shenzhen HEC Industrial Group for the production of drugs. Shenzhen HEC Industrial Group is one of the largest suppliers in the relevant APIs market. As such, the Group believes that the quality of the APIs provided by the Shenzhen HEC Industrial Group is no less favourable than those offered by other third-party suppliers. And it is commercially desirable for us to continue to purchase APIs from Shenzhen HEC Industrial Group 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-party suppliers.

The Board (including the independent non-executive Directors) are of the view that the terms of the APIs Purchase Agreement and the transactions contemplated thereunder (including the proposed annual cap) are on normal commercial terms and in the ordinary and usual course of business of the Group, and the annual caps are on normal commercial terms and fair and reasonable and in the interests of the Company and Shareholders as a whole.

### **3. Packaging and Production Materials Purchase Framework Agreement**

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to purchase of specific packaging materials and production materials for packaging and production of the drugs manufactured by the Group from Shenzhen HEC Industrial.

The principal terms of the Packaging and Production Materials Purchase Framework Agreement are as follows:

Date	:	27 April 2022
Parties	:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 April 2022 to 31 December 2022

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## LETTER FROM THE BOARD

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- Nature of transaction : The Company agreed to purchase of specific packaging materials and production materials (“**Packaging Materials**”) from Shenzhen HEC Industrial.
- Payment method : The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days after receiving the Packaging Materials and passing the acceptance tests and receipt of the invoice issued by Shenzhen HEC Industrial.
- Condition Precedents : The Packaging and Production Materials Purchase Framework Agreement is conditional upon the satisfaction of the following conditions precedent:
- (i) the due execution of the Packaging and Production Materials Purchase Framework Agreement by both parties; and
  - (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Packaging and Production Materials Purchase Framework Agreement and the proposed annual cap contemplated thereunder in accordance with the Listing Rules.

Relevant subsidiaries of both parties will enter into separate agreements which will set out the specific terms and conditions according to the principles provided in the Packaging and Production Materials Purchase Framework Agreement.

### *Pricing policy*

When selecting suppliers of Packaging Materials, the Company will obtain quotations from Shenzhen HEC Industrial and at least two independent third-party suppliers. The prices and terms offered by Shenzhen HEC Industrial will be fair and reasonable, on normal commercial terms, and in any event shall be no less favourable to the Group than those available from independent third parties. The Directors are of the view that by Shenzhen HEC Industrial to offer prices and terms similar to those offered by two other independent third-party suppliers under the Packaging and Production Materials Purchase Framework 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.

### *Proposed annual cap and determination basis*

The Company estimates that the annual cap under the Packaging and Production Materials Purchase Framework Agreement for the year ending 31 December 2022 is RMB36,000,000. In considering the proposed annual cap under the Packaging and Production Materials Purchase Framework Agreement, the Directors have taken into account a number of factors, including (1) the historical transaction amounts; (2) the estimated demand for the year ending 31 December 2022; and (3) expected increase in transaction amounts in the future due to the Group’s business development.

## LETTER FROM THE BOARD

### *Historical annual caps and transaction amounts*

The historical annual caps and transaction amounts for the purchase of Packaging Materials from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2019, 2020 and 2021, for the period ended 27 April 2022 and for the six months ended 30 June 2022 are set out below:

	For the year ended 31 December 2019			For the year ended 31 December 2020			For the year ended 31 December 2021			For the period ended 27 April 2022	For six months ended 30 June 2022
	<i>Historical</i>			<i>Historical</i>			<i>Historical</i>			<i>Historical</i>	<i>Historical</i>
	Annual cap	transaction amount	Utilisation rate	Annual cap	transaction amount	Utilisation rate	Annual cap	transaction amount	Utilisation rate	transaction amount	transaction amount
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000
Historical annual caps and transaction amounts for purchase of Packaging Materials from Shenzhen HEC Industrial Group	<u>45,200<sup>(1)</sup></u>	<u>44,710<sup>(1)</sup></u>	<u>98.92%</u>	<u>62,000<sup>(1)</sup></u>	<u>24,659<sup>(1)</sup></u>	<u>39.77%</u>	<u>24,150<sup>(2)</sup></u>	<u>12,876.41<sup>(2)</sup></u>	<u>53.32%</u>	<u>82.80</u>	<u>17,358</u>

*Notes:*

- (1) On 22 December 2017, the Company entered into the 2018–2020 Framework Packaging and Chemical Materials Purchase Agreement with Shenzhen HEC Industrial, pursuant to which, the Company has agreed to purchase certain packaging and chemical materials from Shenzhen HEC Industrial Group for the packaging and manufacturing of pharmaceutical products. The term of the 2018–2020 Framework Packaging and Chemical Materials Purchase Agreement was three years, effective from 1 January 2018 to 31 December 2020. On 24 August 2018, the Board resolved to adjust the annual caps for the continuing connected transaction under the 2018–2020 Framework Packaging and Chemical Materials Purchase Agreement. For details, please refer to the announcement dated 22 December 2017 and 24 August 2018, 2019 annual report and 2020 annual report of the Company.
- (2) On 19 March 2021, (i) the Company entered into the Packaging Materials Purchase Contract in relation to the purchase of printed packaging materials from Shaoguan HEC Packaging (an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial); and (ii) the Company entered into the Supplemental Chemical Materials and Hardware Materials Purchase Agreement with Yichang HEC Biochemical Manufacturing (a direct non-wholly owned subsidiary of Shenzhen HEC Industrial), pursuant to which, the Company agreed to purchase chemical materials and hardware materials from Yichang HEC Biochemical Manufacturing. For details, please refer to the announcement dated 19 March 2021 and circular of the Company dated 28 May 2021 and 2021 annual report of the Company.

As shown in the above table, the utilisation rates of historical annual caps were approximately 98.92%, 39.77% and 53.32% for the three years ended 31 December 2021 respectively. The fluctuating utilization rate of the annual caps was due to the fact that (i) in 2020, the mobility of China's domestic population has declined due to the impact of the pandemic, and the number of medical activities, prescriptions and sales volume of drugs in hospitals have also decreased accordingly. The Group's products were also affected by the pandemic, and sales volume decreased significantly, resulting in a decrease in the volume of procurement for packaging materials and production materials required for the Group's products. The actual transaction amount with Shenzhen HEC Industrial Group

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## LETTER FROM THE BOARD

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was lower than the expected annual cap; and (ii) in 2021, the Group expected (1) the pandemic in China would stabilize, and sales volume of the Group's core product Kewei would gradually recover; (2) a number of the Group's products, such as yimitasvir phosphate capsule and recombinant human insulin injection, had been approved for marketing in late 2020 and early 2021, and the use of packaging materials and chemical materials and hardware materials for the relevant pharmaceutical products would increase; and (iii) in 2020, the Group participated in the tender process of the second batch of National Centralized Procurement of Pharmaceuticals and the third batch of National Centralized Procurement of Pharmaceuticals 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), and a number of products won the tender for centralized procurement. The use of packaging materials required for relevant products was expected to increase significantly. However, due to the spread of the pandemic overseas and the resurgence of the pandemic in China, the sales volume of the Group's products decreased significantly, resulting in a significant decrease in the amount of procurement of packaging materials and production materials required for the products, and the transaction amounts with Shenzhen HEC Industrial Group were not as high as the expected annual caps.

Despite of the historical amounts for the purchase of Packaging Materials from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for the year ended 31 December 2022, when comparing with the historical amounts of the similar transactions for the first four months of 2021, it also accounted for less than 1% of its actual amount for the year ended 31 December 2021.

Notwithstanding of the fluctuating utilization rate of the annual caps in the past, in light of the increase of operating income recorded by the Group of approximately 588% for the first two months of 2022 as compared to the same period in 2021, mainly due to the overall stability of the pandemic prevention and control in China, the increasingly normalized flow of personnel and daily social activities, and the significant recovery in the overall flow of people, number of diagnosis and treatment activities and prescription volume of terminal medical institutions. In addition, the Group vigorously promoted academic promotion and new channel expansion, and the sales volume of drugs showed a very good recovery trend. Further, following the recovery of market conditions, it is expected that sales volume of the Group's core product Kewei will increase significantly, and the amount of packaging materials and production materials required will also increase accordingly. Therefore, the Company expects to purchase of packaging materials and production and ancillary materials from Shenzhen HEC Industrial Group for such production of approximately RMB30,450,000 in 2022. Based on the highest procurement volume won in the tender and the sales volume promoted by the Group, the overall sales for the products are expected to increase significantly, and the amount of chemical materials and hardware materials required for packaging and production will also increase significantly accordingly, which in turn, the corresponding demand of specific packaging materials and production materials for packaging and production of the drugs manufactured by the Group will substantially increase. Therefore, the Board considers that it is necessary to set a higher proposed annual cap for the year ended 31 December 2022.

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## LETTER FROM THE BOARD

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### *Reasons for the transaction*

Historically, the Group purchased Packaging Materials from Shenzhen HEC Industrial Group for packaging of the drugs manufactured by the Group, 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, Shenzhen HEC Industrial Group are able to complete the Company's purchase orders more efficiently.

The Board (including the independent non-executive Directors) are of the view that the terms of the Packaging and Production Materials Purchase Framework Agreement and the transactions contemplated thereunder (including the proposed annual cap) are on normal commercial terms and in the ordinary and usual course of business of the Group, and the annual caps are on normal commercial terms and fair and reasonable and in the interests of the Company and Shareholders as a whole.

#### **4. Equipment Purchase and Civil Construction Framework Agreement**

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to purchase of certain equipment and civil construction services from Shenzhen HEC Industrial.

The principal terms of the Equipment Purchase and Civil Construction Framework Agreement are as follows:

Date	:	27 April 2022
Parties	:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 April 2022 to 31 December 2022
Nature of transaction	:	The Company agreed purchase of certain equipment and civil construction services (" <b>Equipment and Civil Construction Services</b> ") from Shenzhen HEC Industrial.
Payment method	:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
Condition Precedents	:	The Equipment Purchase and Civil Construction Framework Agreement is conditional upon the satisfaction of the following conditions precedent:  (i) the due execution of the Equipment Purchase and Civil Construction Framework Agreement by both parties; and

## LETTER FROM THE BOARD

- (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Equipment Purchase and Civil Construction Framework Agreement and the proposed annual cap contemplated thereunder in accordance with the Listing Rules.

Relevant subsidiaries of both parties will enter into separate agreements which will set out the specific terms and conditions according to the principles provided in the Equipment Purchase and Civil Construction Framework Agreement.

### *Pricing policy*

The price charged by Shenzhen HEC Industrial to the Group for the purchase of Equipment and Civil Construction Services, adopts a “cost-plus” mechanism in which a range of 10%–15% and 5%–10% of the profit is charged, respectively.

### *Proposed annual cap and determination basis*

The Company estimates that the annual cap under the Equipment Purchase and Civil Construction Framework Agreement for the year ending 31 December 2022 is RMB37,000,000. In considering the proposed annual cap under the Equipment Purchase and Civil Construction Framework Agreement, the Directors have taken into account a number of factors, including (1) the business development of the Group; (2) the depreciation rate of the workshop equipment; and (3) the estimated total number of equipment required to be purchased in 2022 as estimated by the heads of plants of the Company multiplied by the unit price of the equipment.

### *Historical annual caps and transaction amounts*

The historical annual caps and transaction amounts for the purchase of Equipment and Civil Construction Services from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2019, 2020 and 2021, for the period ended 27 April 2022 and for the six months ended 30 June 2022 are set out below:

	For the year ended 31 December 2019			For the year ended 31 December 2020			For the year ended 31 December 2021			For the period ended 27 April 2022	For six months ended 30 June 2022
	<i>Historical</i>			<i>Historical</i>			<i>Historical</i>			<i>Historical</i>	<i>Historical</i>
	Annual cap	transaction amount	Utilisation rate	Annual cap	transaction amount	Utilisation rate	Annual cap	transaction amount	Utilisation rate	transaction amount	transaction amount
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000
Historical annual caps and transaction amounts for purchase of Equipment and Civil Construction Services from Shenzhen HEC Industrial Group	<u>110,950<sup>(1)</sup></u>	<u>73,080<sup>(1)</sup></u>	<u>65.87%</u>	<u>179,863<sup>(2)</sup></u>	<u>105,748<sup>(2)</sup></u>	<u>58.79%</u>	<u>62,943.05<sup>(3)</sup></u>	<u>41,727.31<sup>(3)</sup></u>	<u>66.29%</u>	<u>—</u>	<u>8,989</u>



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## LETTER FROM THE BOARD

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*Notes:*

- (1) On 21 June 2019, the Company entered into the Civil Engineering Construction Contract with Yidu Construction, pursuant to which the Company entrusted Yidu Construction to provide civil engineering construction services for the phase I HEC project of innovative drugs and generic drugs. On 29 October 2019, the Company entered into the Civil Engineering Decoration Construction Contract with Yidu Construction, pursuant to which the Company entrusted Yidu Construction to provide civil engineering and decoration construction services for the living areas of the Company (i.e. talent apartments, restaurants and training centers). For details, please refer to the announcements dated 21 June 2019 and 29 October 2019, 2019 annual report of the Company.
- (2) On 21 June 2019, the Company entered into the Civil Engineering Construction Contract with Yidu Construction, pursuant to which the Company entrusted Yidu Construction to provide civil engineering construction services for the phase I HEC project of innovative drugs and generic drugs. On 29 October 2019, the Company entered into the Civil Engineering Decoration Construction Contract with Yidu Construction, pursuant to which the Company entrusted Yidu Construction to provide civil engineering and decoration construction services for the living areas of the Company (i.e. talent apartments, restaurants and training centres). On 28 July 2020, YiChang HEC Pharmaceutical Manufacturing and Yidu Construction entered into the construction work contract, pursuant to which YiChang HEC Pharmaceutical Manufacturing entrusted Yidu Construction to provide EPC (Engineering, Procurement and Construction) 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, which is located at Louzihe Village, Zhicheng Town, Yidu, China. For details, please refer to the announcements dated 21 June 2019, 29 October 2019, 28 July 2020 and 2020 annual report of the Company.
- (3) On 28 July 2020, HEC Pharmaceutical Manufacturing and Yidu Construction entered into the Construction Work Contract, pursuant to which HEC Pharmaceutical Manufacturing entrusted Yidu Construction to provide EPC (Engineering, Procurement and Construction) services for its workshop. On 19 March 2021, (i) the Company entered into the Construction Contract with Yidu Construction (an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial), pursuant to which, the Company agreed to engage Yidu Construction to carry out the civil works of minor maintenance projects; (ii) Yichang HEC Pharmaceutical Manufacturing (a subsidiary of the Company) entered into Industrial Products Sale and Purchase Contract (I) with Yidu Changjiang Machine and Equipment (a direct non-wholly owned subsidiary of Shenzhen HEC Industrial), pursuant to which, Yichang HEC Pharmaceutical Manufacturing agreed to purchase of tank field and workshop renovation equipment from Yidu Changjiang Machine and Equipment; and (iii) the Company entered into the Industrial Products Sale and Purchase Contract (II) with Yidu Changjiang Machine and Equipment, pursuant to which, the Company agreed to purchase workshop renovation equipment from Yidu Changjiang Machine and Equipment. For details, please refer to the announcement dated 28 July 2020, 19 March 2021 and circular dated 28 May 2021 and 2021 annual report of the Company.

As shown in the above table, the utilisation rates of historical annual caps were approximately 65.87%, 58.79%, 66.29% for the three years ended 31 December 2021 respectively. The fluctuating utilization rate of the annual caps was due to the fact that (i) the Group completed the construction of a new insulin production plant at the end of 2018. Based on the actual construction progress and the designed production capacity of the new insulin production plant, it was expected that the Group's demand for customized equipment and the procurement would show a significant increase, and therefore the annual transaction amount cap for the two years ended 31 December 2020 would be increased accordingly. Although the operation results of the Group increased significantly in 2019, and the amount of procurement for customized equipment with Shenzhen HEC Industrial Group increased accordingly, but the increase was not as high as the adjusted annual cap; (ii) in 2020, due to the impact of the pandemic and the domestic pandemic

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## LETTER FROM THE BOARD

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prevention and control policies, the Group's generic drug production plants and insulin plants had been suspended from time to time, and some civil construction projects had slowed down. Therefore, the actual transaction amount with Shenzhen HEC Industrial Group was not as high as the annual cap; and (iii) in 2021, due to the impact of the recurrence of the pandemic in China and the domestic pandemic prevention and control policies, the progress of some of the Group's civil engineering construction projects had slowed down and had to be delayed in the completion to 2022 and delayed in settlement of the relevant amount. Therefore, the actual transaction amount between the Group and Shenzhen HEC Industrial Group was lower than the expected annual cap.

Despite of the historical amounts for the purchase of Equipment and Civil Construction Services from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022 amounted for less than 1% of the proposed annual cap for the year ended 31 December 2022, no historical amounts was recorded of the similar transactions for the first four months of 2021.

In view of the impact of the pandemic in previous years, some of the Group's civil engineering construction projects were suspended or slowed down from time to time, resulting in the delay of completion of the relevant projects to 2022 and delay of settlement of the relevant amount. Therefore, in 2022, the Group mainly undertook projects that were not completed in previous years. In addition, a number of projects of the Group in 2021 were mainly at the construction stage, including custom-made workshop No. 3, recycling workshop equipment, other equipment and sporadic projects. In 2022, as most of the projects are put into use, sporadic maintenance is required, and it is expected that additional transaction amounts will be incurred. The Company expects to (i) purchase construction materials and equipment for construction of its custom-made workshop No. 3 and recycling workshop from Shenzhen HEC Industrial Group of approximately RMB3,170,000; (ii) purchase steam pipes (including installation fee), water pipes (including installation fee), and other ancillary materials for maintenance work of its production workshops, including its workshops for production of insulin, from Shenzhen HEC Industrial Group of approximately RMB18,850,000; (iii) purchase of certain equipment for daily maintenance of its manufacturing facilities from Shenzhen HEC Industrial Group of approximately RMB5,950,000; and (iv) the settlement for purchasing of equipment from Shenzhen HEC Industrial Group of approximately RMB9,030,000. Therefore, the Group set the proposed annual cap amount based on the completion budget of the above projects at the end of 2022.

### *Reasons for the transaction*

The Group needs to purchase equipment necessary for workshop renovation to carry out its business. Specialized in production of Equipment and Civil Construction Services, Shenzhen HEC Industrial 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 and Civil Construction Services stably. Therefore, the Board believes that the Group purchases Equipment and Civil Construction Services from Shenzhen HEC Industrial is beneficial to the steady development of the Group's business.



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## LETTER FROM THE BOARD

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The Board (including the independent non-executive Directors) are of the view that the terms of the Equipment Purchase and Civil Construction Framework Agreement and the proposed annual cap contemplated thereunder (including the proposed annual cap) are on normal commercial terms and in the ordinary and usual course of business of the Group, and the annual caps are on normal commercial terms and fair and reasonable and in the interests of the Company and Shareholders as a whole.

### ENTRUSTED TRANSACTION

#### 5. Entrusted Processing Framework Agreement

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to acquiring the pharmaceutical processing services provided by Shenzhen HEC Industrial.

The principal terms of the Entrusted Processing Framework Agreement are as follows:

Date	:	27 April 2022
Parties	:	the Company (for itself and on behalf of its subsidiaries); and  Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries, except the Company)
Term	:	From 27 April 2022 to 31 December 2022
Nature of transaction	:	The Company agreed to purchase pharmaceutical processing services (“ <b>Processing Services</b> ”) for its certain pharmaceutical products, including Olmesartan Tablets, Moxifloxacin Hydrochloride Tablets, Clarithromycin Tablets, Aripiprazole Tablets, Levofloxacin Tablets, Rivaroxaban Tablets, Duloxetine Enteric-coated Capsules, Escitalopram Tablets, Xadiafil Tablets, Aripiprazole Orally Disintegrating Tablets, Entacapone Tablets, Febuxostat Tablets, Apixaban Tablets, Mitoglol Sustained Release Tablets, Atorvastatin Calcium Tablets, Rongliflozin and other APIs from Shenzhen HEC Industrial.
Payment method	:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
Condition Precedents	:	The Entrusted Processing Framework Agreement is conditional upon the satisfaction of the following conditions precedent:

## LETTER FROM THE BOARD

- (i) the due execution of the Entrusted Processing Framework Agreement by both parties; and
- (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Entrusted Processing Framework Agreement and the proposed annual cap contemplated thereunder in accordance with the Listing Rules.

Relevant subsidiaries of both parties will enter into separate agreements which will set out the specific terms and conditions according to the principles provided in the Entrusted Processing Framework Agreement.

### *Pricing policy*

A “cost-plus” mechanism is adopted for the price of the processing fee payable by Group to Shenzhen HEC Industrial. In addition to the necessary costs and expenses incurred for the processing services, Shenzhen HEC Industrial charges the Group an additional fee within approximately 10–20% of the processing fee.

### *Proposed annual cap and determination basis*

The Company estimates that the annual cap under the Entrusted Processing Framework Agreement for the year ending 31 December 2022 is RMB103,066,200. In considering the proposed annual cap under the Entrusted Processing Framework Agreement, the Directors have taken into account a number of factors, including (1) increasing demand due to successful tender under centralized volume-based procurement of Pharmaceuticals; and (2) the Group’s business development strategies.

### *Historical annual caps and transaction amounts*

The historical annual caps and transaction amounts for entrusting of Shenzhen HEC Industrial Group to carry out processing services for its certain pharmaceutical products for each of the three years ended 31 December 2019, 2020 and 2021, for the period ended 27 April 2022 and for the six months ended 30 June 2022 are set out below:

	For the year ended 31 December 2019			For the year ended 31 December 2020			For the year ended 31 December 2021			For the period ended 27 April 2022	For six months ended 30 June 2022
	<i>Historical transaction</i>		<i>Utilisation</i>	<i>Historical transaction</i>		<i>Utilisation</i>	<i>Historical transaction</i>		<i>Utilisation</i>	<i>Historical transaction</i>	<i>Historical transaction</i>
	<i>Annual cap</i>	<i>amount</i>	<i>rate</i>	<i>Annual cap</i>	<i>amount</i>	<i>rate</i>	<i>Annual cap</i>	<i>amount</i>	<i>rate</i>	<i>amount</i>	<i>amount</i>
	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>
Historical annual caps and transaction amounts for entrusting of Shenzhen HEC Industrial Group to carry out processing services	15,000 <sup>(1)</sup>	3,190 <sup>(1)</sup>	21.27%	119,523.30 <sup>(2)</sup>	81,149 <sup>(2)</sup>	67.89%	130,330.70 <sup>(3)</sup>	52,628.78 <sup>(3)</sup>	40.38%	230.10	41,703

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## LETTER FROM THE BOARD

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*Notes:*

- (1) On 8 April 2019, the Company entered into the Entrusted Processing Framework Agreement with Sunshine Lake Pharma (an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial), pursuant to which Sunshine Lake Pharma agreed to provide drug processing services to Dongguan Yangzhikang, a directly wholly-owned subsidiary of the Company. For details, please refer to the announcement dated 8 April 2019 and 2019 annual report of the Company.
- (2) On 27 February 2020, the Company entered into the Entrusted Processing Framework Agreement with Sunshine Lake Pharma (an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial), pursuant to which Sunshine Lake Pharma agreed to provide drug processing services to the Company and Dongguan Yangzhikang, a directly wholly-owned subsidiary of the Company. For details, please refer to the announcement dated 27 February 2020 and 2020 annual report of the Company.
- (3) On 19 March 2021, (i) the Company entered into Entrusted Processing Framework Agreement (I) with Sunshine Lake Pharma (an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial), pursuant to which, the Company agreed to engage Sunshine Lake Pharma to process certain pharmaceutical products; and (ii) the Company entered into the Entrusted Processing Framework Agreement (II) with Ruyuan HEC Pharmaceutical (an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial), pursuant to which, with Ruyuan HEC Pharmaceutical, pursuant to which, the Company agreed to engage Ruyuan HEC Pharmaceutical to process certain pharmaceutical products. For details, please refer to the announcement dated 19 March 2021 and circular dated 28 May 2021 and 2021 annual report of the Company.

As shown in the above table, the utilisation rates of historical annual caps were approximately 21.27%, 67.89% and 40.38% for the three years ended 31 December 2021 respectively. The low utilization rate of the annual caps was due to the fact that (i) in 2019, the Group entrusted Shenzhen HEC Industrial Group to provide processing services for two pharmaceutical products, moxifloxacin hydrochloride tablets and clarithromycin sustained release tablets. The Directors determined the annual caps based on various factors, including the cost of each pharmaceutical product, the variety of pharmaceutical products and the market demand. As the sales volume of the two pharmaceutical products is not as good as expected, the actual transaction amount was not as high as the expected; (ii) in 2020, affected by the pandemic, the mobility of China's domestic population had decreased, and the number of medical activities, prescriptions and sales volume of drugs in hospitals had also decreased accordingly. The Group's core product, Kewei, is a prescription drug mainly sold in hospitals of different tiers, and its sales volume had also decreased due to the impact of the pandemic. In addition, the Group's sales volume for some centralized procurement products fell, resulting in a significant decrease in the service amount of the Group's entrusted products to Shenzhen HEC Industrial Group, which fell below the expected annual cap; and (iii) in 2021, the Board expected (1) the market demand for the relevant pharmaceutical products would increase as a result of the Group's products participating in the National Centralized Procurement of Pharmaceuticals in 2020 and 2021 and won the tender for centralized procurement; (2) the new product of the Group, rongliflozin L-pyroglutamic acid, had entered the phase 3 clinical trial, and it was necessary to entrust Shenzhen HEC Industrial Group to process the APIs. However, due to the spread of the overseas pandemic and the recurrence of the pandemic in China, sales volume of the Group's tender winning products decreased significantly, and the clinical trial progress of new products slowed down, resulting in a

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## LETTER FROM THE BOARD

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significant decrease in the amount of entrusted processing between the Group and Shenzhen HEC Industrial Group, which was not as high as the expected at the beginning of the year.

Despite of the historical amounts for the purchase of Processing Services from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for the year ended 31 December 2022, when comparing with the historical amounts of the similar transactions for the first four months of 2021, it also accounted for less than 1% of its actual amount for the year ended 31 December 2021.

Notwithstanding of the low utilization rate of the annual caps in the past, in light of the increase of operating income recorded by the Group of approximately 588% for the first two months of 2022 as compared to the same period in 2021, mainly due to the overall stability of the pandemic prevention and control in China, the increasingly normalized flow of personnel and daily social activities, and the significant recovery in the overall flow of people, number of diagnosis and treatment activities and prescription volume of terminal medical institutions. In addition, the Group vigorously promoted academic promotion and new channel expansion, and the sales volume of drugs showed a very good recovery trend. In addition, (i) in 2020 and 2021, a number of the Group's products won the tenders for centralized procurement, including moxifloxacin hydrochloride tablets, clarithromycin tablets, olmesartan axetil tablets, levofloxacin tablets, duloxetine hydrochloride enteric coated capsules, aripiprazole tablets and rivaroxaban tablets. With the recovery of market conditions and the increase in demand for related products, the demand for the processing services entrusted to Shenzhen HEC Industrial Group will also increase accordingly; and (ii) in 2021, a number of new products of the Group have been approved for launch, such as apixaban tablets, matolol sustained release tablets, atorvastatin calcium, which in turn, the corresponding demand of processing services of pharmaceutical products by the Group will substantially increase. For those products which won the tender of National Centralized Procurement of Pharmaceuticals in 2020 and 2021, the Company expects to engage processing services of 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), Duloxetine Hydrochloride Enteric-coated Capsules (鹽酸度洛西汀腸溶膠囊), Aripiprazole Tablets (阿立哌唑片) and Rivaroxaban tablets (利伐沙班片) provided by Shenzhen HEC Industrial Group with a transaction amount of approximately RMB70,000,000. Also, the Company expects to engage processing services for its first launch products in 2022, such as Escitalopram Oxalate Tablets (草酸艾司西酞普蘭片), Febuxostat Tablets (非布司他片), Apixaban Tablets (阿哌沙班片), Metoprolol Succinate Sustained-release Tablets (美托洛爾緩釋片), Atorvastatin Calcium Tablets (阿托伐他汀鈣片), provided by Shenzhen HEC Industrial Group with a transaction amount of approximately RMB270,000,000. Further, the Company expects to win the centralized procurement of Aripiprazole Orally Disintegrating Tablets (阿立哌唑口崩片) in 2022, so it expects to engage processing services provided by Shenzhen HEC Industrial Group of Aripiprazole Orally Disintegrating Tablets (阿立哌唑口崩片) with a transaction amount of approximately RMB4,200,000. Therefore, the Board considers that it is necessary to set a higher proposed annual caps for the year ended 31 December 2022.

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## LETTER FROM THE BOARD

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### *Reasons for the transaction*

As the place of registration of relevant types of drugs subject to entrusted processing is the subsidiaries of Shenzhen HEC Industrial Group, the Group does not possess the Good Manufacturing Practice (GMP) qualification and related equipment for the production of pharmaceutical products as mentioned above. Shenzhen HEC Industrial Group has passed the national GMP certification for many times and possesses the production qualifications and equipment for the relevant pharmaceutical products, and therefore entrusted Shenzhen HEC Industrial Group to manufacture the pharmaceutical products through the Entrusted Processing Framework Agreement.

The Board (including the independent non-executive Directors) are of the view that the terms of the Entrusted Processing Framework Agreement and the proposed annual cap contemplated thereunder (including the proposed annual cap) are on normal commercial terms and in the ordinary and usual course of business of the Group, and the annual caps are on normal commercial terms and fair and reasonable and in the interests of the Company and Shareholders as a whole.

### **6. Leasing and Other Services Framework Agreement**

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to the provision of leasing and other services by Shenzhen HEC Industrial to the Company. The scope of leasing and other services includes leasing of office buildings, leasing of warehouses, provision of inspection and testing, provision of conference accommodation and other services.

The principal terms of the Leasing and Other Services Framework Agreement are as follows:

Date	:	27 April 2022
Parties	:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 April 2022 to 31 December 2022
Nature of transaction	:	Shenzhen HEC Industrial will provide office buildings, warehouse, inspection and testing service, conference accommodation and other services (“ <b>Leasing and Conference Services</b> ”) to the Company.
Payment method	:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.

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## LETTER FROM THE BOARD

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Condition Precedents : The Leasing and Other Services Framework Agreement is conditional upon the satisfaction of the following conditions precedent:

- (i) the due execution of the Leasing and Other Services Framework Agreement by both parties; and
- (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Leasing and Other Services Framework Agreement and the proposed annual cap contemplated thereunder in accordance with the Listing Rules.

Relevant subsidiaries of both parties will enter into separate agreements which will set out the specific terms and conditions according to the principles provided in the Leasing and Other Services Framework Agreement.

### *Pricing policy*

The rental of leasing of office buildings and warehouse charged by Shenzhen HEC Industrial to the Group is determined after arm's length negotiations by reference to the current rent for the same type of property in the vicinity at the time of entering into the Leasing and Other Services Framework Agreement.

The fee for Inspection and testing service charged by Shenzhen HEC Industrial to the Group adopts a "cost-plus" mechanism in which a range of 10%–15% of the profit is charged.

The fee for conference service charged by Shenzhen HEC Industrial to the Group is determined with reference to the actual consumption volume and the price of settlement published by Yichang Shancheng Shuidu Hotel Co., Ltd\* (宜昌山山水都大飯店有限公司), a subsidiary of Shenzhen HEC Industrial, based on the unified external settlement price list published by the hotel with the most preferential discount, and are settled based on the actual consumption volume.

### *Proposed annual cap and determination basis*

The Company estimates that the annual cap under the Leasing and Other Services Framework Agreement for the year ending 31 December 2022 is RMB27,000,000. In considering the proposed annual cap under the Leasing and Other Services Framework Agreement, the Directors have taken into account a number of factors, including (1) potential increase in rent for properties of similar size in the neighbourhood; (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.

## LETTER FROM THE BOARD

### *Historical annual caps and transaction amounts*

The historical annual caps and transaction amounts for leasing and other services from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2019, 2020 and 2021, for the period ended 27 April 2022 and for the six months ended 30 June 2022 are set out below:

	For the year ended 31 December 2019			For the year ended 31 December 2020			For the year ended 31 December 2021			For the period ended 27 April 2022	For six months ended 30 June 2022
	<i>Historical</i>			<i>Historical</i>			<i>Historical</i>			<i>Historical</i>	<i>Historical</i>
	Annual cap	transaction amount	Utilisation rate	Annual cap	transaction amount	Utilisation rate	Annual cap	transaction amount	Utilisation rate	transaction amount	transaction amount
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000
Historical annual caps and transaction amounts for leasing and other services from Shenzhen HEC Industrial Group	4,200 <sup>(1)</sup>	3,690 <sup>(1)</sup>	87.86%	80,000 <sup>(2)</sup>	7,500 <sup>(2)</sup>	9.38%	9,826.10 <sup>(3)</sup>	7,179.28 <sup>(3)</sup>	73.06%	24.70	3,559

*Note:*

- (1) On 24 February 2017, the Company entered into the 2017 Liquid Waste Processing Agreement with HEC Pharm Co., Ltd. (宜昌東陽光藥業股份有限公司) (“HEC Pharm”), pursuant to which, HEC Pharm agreed to provide liquid waste processing service to the Company. The term of the 2017 Liquid Waste Processing Agreement was from 24 February 2017 to 31 December 2019. On 24 August 2018, the Board resolved to adjust the annual cap for the continuing connected transaction under the 2017 Liquid Waste Processing Agreement. For details, please refer to the announcements dated 24 February 2017 and 24 August 2018 and 2019 annual report of the Company.
- (2) On 27 April 2020, the Company entered into the Plant and Equipment Lease Agreement with Ruyuan HEC Pharma, pursuant to which Ruyuan HEC Pharma leased a plant to the Company for the production of APIs. For details, please refer to the announcement dated 27 April 2020 and 2020 annual report of the Company.
- (3) On 19 March 2021, (i) the Company entered into the Property Lease Contract with HEC Medicine Development and Research (an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial); (ii) the Company and Yichang HEC Biochemical Manufacturing entered into the Supplemental Entrusted Sewage Treatment Agreement, pursuant to which, the Company agreed to entrust Yichang HEC Biochemical Manufacturing to treat the sewage generated during the production process of the Company; (iii) the Company entered into the Entrusted Inspection Contract (I) with Ruyuan HEC Pharmaceutical, pursuant to which the Company agreed to engage Ruyuan HEC Pharmaceutical to conduct a quality control inspection on the talcum powder; and (iv) the Company entered into the Entrusted Inspection Contract (II) with HEC Generic Drugs Development and Research, pursuant to which the Company agreed to commission 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. For details, please refer to the announcement dated 19 March 2021 and 2021 annual report of the Company. A historical transaction amount of approximately RMB1,767,660 for leasing and other services from Shenzhen HEC Industrial Group are fully exempted from reporting under Chapter 14A of the Listing Rules.



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## LETTER FROM THE BOARD

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As shown in the above table, the utilisation rates of historical annual caps were approximately 87.86%, 9.38%, 73.06% for the three years ended 31 December 2021 respectively. The fluctuating utilization rate of the annual caps was due to the fact that (i) in 2020, the mobility of China's domestic population had declined due to the impact of the pandemic, and the number of medical activities, prescriptions and sales volume of drugs in hospitals had also decreased accordingly. Sales volume of the Group's core product, Kewei, also declined due to the impact of the pandemic. Coupled with the impact of the pandemic prevention and control policies, the Group basically suspended the academic promotion meetings and marketing activities for the lease of Shenzhen HEC Industrial Group hotels, and the accommodation, catering and other services with Shenzhen HEC Industrial Group were cancelled accordingly. Therefore, the actual transaction amount was lower than expected; and (ii) in 2021, affected by the recurrence of the pandemic in China and the domestic pandemic prevention and control policies, the academic promotion conferences and marketing activities carried out by the Group's leasing of hotels of Shenzhen HEC Industrial Group decreased significantly, and the accommodation, catering and other services with Shenzhen HEC Industrial Group also decreased significantly. In addition, sales volume, a product of the Group, decreased significantly due to the impact of the pandemic, resulting in a decrease in the transaction amount of the Group's engagement of Shenzhen HEC Industrial Group for the pharmaceutical inspection services. As a result of the above, the actual transaction amount between the Group and Shenzhen HEC Industrial Group was lower than expected.

Despite of the historical amounts for the Leasing and Conference Services from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for the year ended 31 December 2022, when comparing with the historical amounts of the similar transactions for the first four months of 2021, it also accounted for less than 1% of its actual amount for the year ended 31 December 2021.

Notwithstanding of the fluctuating utilization rate of the annual caps in the past given that (i) with the recovery of market conditions and the recovery of the Company's performance in 2022, the Company has scheduled to convene a total of approximately 70 conferences in 2022, therefore the Group's marketing activities and academic promotion conferences using Shenzhen HEC Industrial Group hotels are expected to increase significantly, and the amount of related accommodation services and catering services will also increase accordingly. The Company expects the transaction amount for using the conference services provided by Shenzhen HEC Industrial Group of approximately RMB11,000,000 in 2022; (ii) the Group's supplemental application for the process amplification of relevant insulin products, it is expected that the workshop inspection and testing fee and quality inspection fee entrusted to the Shenzhen HEC Industrial Group in 2022 will increase accordingly, which in turn, the corresponding demand for engagement of Shenzhen HEC Industrial Group to carry out inspection and testing services by the Company will substantially increase to approximately RMB9,000,000; and (iii) the Group also expects the transaction amount of arise from leasing office buildings, warehouses and other services from Shenzhen HEC Industrial Group in 2022 are expected to be same as in 2021 of approximately RMB7,100,000. Therefore, the Board considers that it is necessary to set a higher proposed annual caps for the year ended 31 December 2022.



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## LETTER FROM THE BOARD

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### *Reasons for the transaction*

Historically, the Group rent properties for its office use and warehouse use from Shenzhen HEC Industrial Group for its daily operations and venue for holding its academic promotion activities operated by Shenzhen HEC Industrial Group as we do not own such facilities. Further these office buildings, warehouse and hotel venue are located relatively convenient and close to the production base of the Group, the services and price offered by Shenzhen HEC Industrial Group are not inferior than offered by independent third parties, and we have maintained long-term cooperation with Shenzhen HEC Industrial Group and beneficial to the Group's operation. Therefore, it is commercially desirable to continue to obtain Leasing and Conference Services from Shenzhen HEC Industrial Group.

Shenzhen HEC Industrial Group are familiar with the Group's business and operational needs, and maintain good cooperation relationship with the Group, which can provide the necessary inspection and testing services for the business development of the Group, the Board therefore is of the view that obtaining inspection and testing services from Shenzhen HEC Industrial Group is beneficial to the steady development of the Group's business.

The Board (including the independent non-executive Directors) is of the view that the terms of the Leasing and Other Services Framework Agreement and the proposed annual cap contemplated thereunder (including the proposed annual cap) are on normal commercial terms and in the ordinary and usual course of business of the Group, and the annual caps are on normal commercial terms and fair and reasonable and in the interests of the Company and Shareholders as a whole.

### **CONTINUING CONNECTED TRANSACTIONS PROVIDED BY THE GROUP TO SHENZHEN HEC INDUSTRIAL GROUP**

#### **7. APIs and Pharmaceutical Products Sales Framework Agreement**

On 27 April 2022, the Company entered into the APIs and Pharmaceutical Products Sales Framework Agreement in relation to the sales of APIs and pharmaceutical products to Shenzhen HEC Industrial.

The principal terms of the APIs and Pharmaceutical Products Sales Framework Agreement are as follows:

Date	:	27 April 2022
Parties	:	The Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 April 2022 to 31 December 2022

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## LETTER FROM THE BOARD

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- Nature of transaction : The Company agreed to sell APIs such as Esomeprazole Magnesium, Oseltamivir Phosphate, Olanzapine, Entacapone, Febuxostat and chemical pharmaceutical products to Shenzhen HEC Industrial.
- Payment method : Shenzhen HEC Industrial will pay the corresponding amount to the Company (via telegraphic transfer) within 90 days upon receipt of the invoice issued by the Company.
- Condition Precedents : The APIs and Pharmaceutical Products Sales Framework Agreement is conditional upon the satisfaction of the following conditions precedent:
- (i) the due execution of the APIs and Pharmaceutical Products Sales Framework Agreement by both parties; and
  - (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the APIs and Pharmaceutical Products Sales Framework Agreement and the proposed annual cap contemplated thereunder in accordance with the Listing Rules.

### *Pricing policy*

As the Company also sells pharmaceutical products and APIs to independent third parties, the fees to be charged by the Group to Shenzhen HEC Industrial Group shall not be lower than the price charged to any independent third parties. The price charged shall be at prevailing market price base on the standard price list of the Group for its products applicable to all customers (which was determined by the business planning executives on a fixed percentage of margins over costs and taking into account of the selling price of competitors), being the selling price of similar products sold by the Group to independent third parties on normal commercial terms in the ordinary course of business in the PRC in China recently.

### *Proposed annual cap and determination basis*

The Company estimates that the annual cap under APIs and Pharmaceutical Products Sales Framework Agreement for the year ending 31 December 2022 is RMB15,012,000. In considering the annual caps under APIs and Pharmaceutical Products Sales Framework Agreement, the Directors have taken into account a number of factors, including (1) fair price and expected sales volume of each API; (2) the estimated market demand for the year ending 31 December 2022; and (3) the Group's business development strategies.

## LETTER FROM THE BOARD

### *Historical annual caps and transaction amounts*

The annual caps and transaction amounts for APIs and Pharmaceutical Products Sales Framework Agreement between the Group and Shenzhen HEC Industrial Group for each of the three years ended 31 December 2019, 2020 and 2021, for the period ended 27 April 2022 and for the six months ended 30 June 2022 are set out below:

	For the year ended			For the year ended			For the year ended			For the	For six
	31 December 2019			31 December 2020			31 December 2021			period ended	months
	Historical			Historical			Historical			27 April	ended
	Annual	transaction	Utilisation	Annual	transaction	Utilisation	Annual	transaction	Utilisation	Historical	Historical
	cap	amount	rate	cap	amount	rate	cap	amount	rate	transaction	transaction
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000
Historical annual caps and transaction amounts for APIs and Pharmaceutical Products provided by the Group to Shenzhen HEC Industrial Group	10,000 <sup>(1)</sup>	2,610 <sup>(1)</sup>	26.10%	8,500 <sup>(2)</sup>	4,193 <sup>(2)</sup>	49.33%	34,580 <sup>(3)</sup>	5,450.43 <sup>(3)</sup>	15.76%	—	4,427

#### *Notes:*

- (1) On 24 February 2017, the Company entered into the Framework Pharmaceutical Products and APIs Sales Agreement with Shenzhen HEC Industrial, pursuant to which, Shenzhen HEC Industrial Group agreed to purchase pharmaceutical products and APIs from the Company. For details, please refer to the announcement dated 24 February 2017 and 2019 annual report of the Company.
- (2) On 27 April 2020, (i) HEC Pharmaceutical and HEC Medicine Retail (Yidu) entered into 2020 Sales Contract I, pursuant to which HEC Pharmaceutical agreed to sell pharmaceutical products, such as oseltamivir phosphate granules, and telmisartan tablets etc., to HEC Medicine Retail (Yidu); and (ii) HEC Pharmaceutical and HEC Medicine Retail (Dongguan) entered into the 2020 Sales Contract II, pursuant to which HEC Pharmaceutical agreed to sell pharmaceutical products, such as oseltamivir phosphate granules, and telmisartan tablets etc., to HEC Medicine Retail (Dongguan). For details, please refer to the announcement dated 27 April 2020 and 2020 annual report of the Company.
- (3) On 19 March 2021, the Company entered into API Sales Contract with Sunshine Lake Pharma (the then indirect non-wholly owned subsidiary of Shenzhen HEC Industrial), pursuant to which, the Company agreed to sell APIs to Sunshine Lake Pharma; (ii) the Company entered into Pharmaceutical Sales Contract with Sunshine Lake Pharma, pursuant to which, Sunshine Lake Pharma agreed to engage the Company to produce pharmaceutical and Sunshine Lake Pharma agreed to purchase the finished products of that pharmaceutical from the Company. For details, please refer to the announcement dated 19 March 2021 and circular dated 28 May 2021 and 2021 annual report of the Company.

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## LETTER FROM THE BOARD

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### *Reasons for the transaction*

The principal activities of the Group include the sale of APIs. As part of its ordinary and usual course of business, the Group sells certain APIs and pharmaceutical products to Shenzhen HEC Industrial at prices and terms consistent with the prevailing market prices and conditions of the relevant products.

As shown in the above table, the utilisation rates of historical annual caps were approximately 26.10%, 49.33% and 15.76% for the three years ended 31 December 2021 respectively. The low utilization rate of the annual caps was due to the fact that (i) in 2019, the bulk medicine procurement business between the Group and Shenzhen HEC Industrial Group was conducted normally, but the actual sales amount of bulk medicine and pharmaceutical products between the Group and Shenzhen HEC Industrial Group was lower than expected due to the high expected annual caps; (ii) in 2020, affected by the pandemic, the mobility of China's domestic population had decreased, and the number of medical activities, prescriptions and sales volume of drugs in hospitals had also decreased accordingly. The sales of the Group's related parties' products also decreased due to the impact of the pandemic, and the demand for APIs required for the relevant drugs decreased accordingly, resulting in the actual sales amount falling short of the expected annual caps; and (iii) in 2021, it was expected that the pandemic in China would stabilize and the sales of pharmaceutical products would gradually recover. At the same time, in order to meet the market demand for pharmaceutical products throughout the year, the Group had formulated higher sales orders. However, due to the spread of the overseas pandemic and the recurrence of the pandemic in the PRC, the pharmaceutical product sales volume of Shenzhen HEC Industrial Group decreased significantly, and the demand for APIs required for relevant drugs decreased significantly, resulting in the actual sales transaction amount falling short of the expected annual cap.

Despite of no historical amounts was recorded for the transaction contemplate under the APIs and Pharmaceutical Products Sales Framework Agreement from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022, when comparing with the historical amounts of the similar transactions for the first four months of 2021, it also accounted for less than 1% of its actual amount for the year ended 31 December 2021.

Notwithstanding of the low utilization rate of the annual caps in the past. However, given that the increase in sales of APIs by the Group to Shenzhen HEC Industrial Group in 2021 was mainly attributable to (i) the expect increase in the order volume of Esomeprazole Magnesium APIs (for the purpose of producing Esomeprazole Magnesium Enteric-coated Capsules (艾司奧美拉唑鎂腸溶膠囊)); (ii) Olanzapine Tablets (奧氮平片) and Olanzapine APIs (for the purpose of producing Olanzapine Orally Disintegrating Tablets (奧氮平口崩片)); and (iii) Oseltamivir Phosphate APIs, by Shenzhen HEC Industrial Group. As Esomeprazole Magnesium Enteric-coated Capsules (艾司奧美拉唑鎂腸溶膠囊) (being the pharmaceutical products produced by, among other things, Esomeprazole Magnesium APIs) and Olanzapine Orally Disintegrating Tablets (奧氮平口崩片) have won the tender for Fourth National Centralized Procurement of Pharmaceuticals (第四批國家組織藥品集中採購) and Third National Centralized

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## LETTER FROM THE BOARD

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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) in 2020 and 2021 respectively; and (ii) Olanzapine Tablets (奧氮平片) have won the tender for the centralized procurement organized by Guangdong Medicine Exchange (廣東省藥品交易中心) in 2021, which in turn, the corresponding sale of pharmaceutical products by the Group will substantially increase, therefore the Group expects the sales of these APIs to Shenzhen HEC Industrial Group with a transaction amount of approximately RMB12,000,000; (ii) Shenzhen HEC Industrial Group will use Oseltamivir Phosphate APIs for its research and development new pharmaceutical products purpose, the Group expects the sales of such products to Shenzhen HEC Industrial Group with a transaction amount of approximately RMB1,500,000; and (iii) the Group also expected to sell Entacapone, Febuxostat and other chemical pharmaceutical products to Shenzhen HEC Industrial Group of approximately RMB2,350,000 for its production. Therefore, the Board considers that it is necessary to set a higher proposed annual caps for the year ended 31 December 2022.

The Board (including the independent non-executive Directors) are of the view that the terms of the APIs and Pharmaceutical Products Sales Framework Agreement and the transactions contemplated thereunder (including the proposed annual cap) are on normal commercial terms and in the ordinary and usual course of business of the Group, and the annual caps are on normal commercial terms and fair and reasonable and in the interests of the Company and Shareholders as a whole.

### 8. Entrusted Production and Inspection Services Framework Agreement

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to the provision of production and testing services, which includes inspection and testing, production and other services (“**Production and Inspection Services**”) to Shenzhen HEC Industrial.

The principal terms of the Entrusted Production and Inspection Services Framework Agreement are as follows:

Date	:	27 April 2022
Parties	:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 April 2022 to 31 December 2022

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## LETTER FROM THE BOARD

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- Nature of transaction : The Company agreed to provide production and inspection services to Shenzhen HEC Industrial. The scope of the entrusted production and inspection services includes provision of production, inspection and testing services to Dong An Tai, Dong An Qiang, Peramivir, Galantamine, Baloxavir, Paliperidone Palmitate, other generic drugs, other new drugs, insulin degludec APIs and injection, insulin degludec/insulin aspart, insulin degludec/ liraglutide injection and intermediates of generic drugs.
- Payment method : Shenzhen HEC Industrial will pay the corresponding amount to the Company (via telegraphic transfer) within 90 days upon receipt of the invoice issued by the Company.
- Condition Precedents : The Entrusted Production and Inspection Services Framework Agreement is conditional upon the satisfaction of the following conditions precedent:
- (i) the due execution of the Entrusted Production and Inspection Services Framework Agreement by both parties; and
  - (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Entrusted Production and Inspection Services Framework Agreement and the proposed annual cap contemplated thereunder in accordance with the Listing Rules.

Relevant subsidiaries of both parties will enter into separate agreements which will set out the specific terms and conditions according to the principles provided in the Entrusted Production and Inspection Services Framework Agreement.

### *Pricing policy*

The fee of production services charged by the Group will be made with reference to the actual production price while a “cost-plus” mechanism is adopted by the Group for charging an inspection services fee to Shenzhen HEC Industrial, i.e. we charge a profit ranging from 10% to 15%.

### *Proposed annual cap and determination basis*

The Company estimates that the annual cap under the Entrusted Production and Inspection Services Framework Agreement for the year ending 31 December 2022 is RMB59,000,000. In considering the proposed annual cap under the Entrusted Production and Inspection Services Framework Agreement, the Directors have taken into account a number of factors, including (1) the Group’s production capacity for the year ending 31 December 2022; and (2) the demand from the Shenzhen HEC Industrial Group.

## LETTER FROM THE BOARD

### *Historical annual caps and transaction amounts*

The historical annual caps and transaction amounts for the provision of Production and Inspection Services to Shenzhen HEC Industrial Group for each of the three years ended 31 December 2019, 2020 and 2021, for the period ended 27 April 2022 and for the six months ended 30 June 2022 are set out below:

	For the year ended			For the year ended			For the year ended			For the	For six
	31 December 2019			31 December 2020			31 December 2021			period ended	months
	Historical			Historical			Historical			27 April	ended
	Annual	transaction	Utilisation	Annual	transaction	Utilisation	Annual	transaction	Utilisation	2022	2022
	cap	amount	rate	cap	amount	rate	cap	amount	rate	Historical	Historical
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		transaction	transaction
										amount	amount
Historical annual caps and transaction amounts for provision of Production and Inspection Services to Shenzhen HEC Industrial Group	—	—	—	—	—	—	74,296.26 <sup>(1)</sup>	4,971.01 <sup>(1)</sup>	6.69%	18.60	172.90

*Note:*

- (1) On 19 March 2021, (i) the Company entered into the Entrusted Processing Framework Agreement (III) with Sunshine Lake Pharma, pursuant to which Sunshine Lake Pharma agreed to engage the Company to process Yiqibuvir Tablets, Dong An Tai, Dong An En and Dong Tong Shen; (ii) Yichang HEC Pharmaceutical Manufacturing (a subsidiary of the Company) entered into the Entrusted Production Service Framework Agreement (I) with Sunshine Lake Pharma, pursuant to which, Sunshine Lake Pharma agreed to engage Yichang HEC Pharmaceutical Manufacturing to evaluate and inspect the production and safety response of Phenylcarbonohydrazonoyl dicyanide, Dong An En, Dong Jian Ze, Dong Tong Rui, Dong Tong Shun, Dong Tong Run, Rongliflozin RG04 and other new pharmaceutical intermediates; and (iii), Yichang HEC Pharmaceutical Manufacturing (a subsidiary of the Company) and HEC Generic Drugs Development and Research entered into the Entrusted Production Service Framework Agreement (II), pursuant to which, HEC Generic Drugs Development and Research engaged Yichang HEC Pharmaceutical Manufacturing to evaluate and inspect the production and safety response on Palamevir, Siponimod and other generic drugs. For details, please refer to the announcement dated 19 March 2021, the circular dated 28 May 2021 and 2021 annual report of the Company.

As shown in the above table, the utilisation rate of historical annual cap was approximately 6.69% for the year ended 31 December 2021. The low utilization rate of the annual cap was due to the fact that the impact of the repeated pandemic in China, the progress of some of the research and development projects of Shenzhen HEC Industrial Group has been adjusted or delayed. Such as the progress of the projects of Shenzhen HEC Industrial Group, including Dong Jian Ze (東健澤) and Dong An Tai (東安泰), had been adjusted and delayed in the completion to 2022 and delayed in settlement of the relevant amount, and the Group had to complete the registration, verification and other batches of production. In addition, all raw materials used in the original project were purchased by the Group, and the actual implementation of the project was directly provided by Shenzhen HEC Industrial Group. The Group only purchased some auxiliary



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## LETTER FROM THE BOARD

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materials, so the actual transaction amount was less than expected. As a result of the above, the transaction amount between the Group and Shenzhen HEC Industrial Group was not as high as the expected.

Despite of the historical amounts for the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for the year ended 31 December 2022, when comparing with the historical amounts of the similar transactions for the first four months of 2021, it also accounted for less than 1% of its actual amount for the year ended 31 December 2021.

Notwithstanding of the low utilization rate of the annual cap in the past, however, given the (i) the Group expects to provide production and inspection services for Dong An Tai and Dong An Qiang to Shenzhen HEC Industrial Group with a transaction amount of approximately RMB44,000,000 in 2022; and (ii) the Group's new production workshop has been put into operation in 2022 and to be commissioned to produce and test more products. Therefore, the Board considers that it is necessary to set a higher proposed annual cap for the year ending 31 December 2022.

### *Reasons for the transaction*

Shenzhen HEC Industrial entrusted the Company to carry out the production of drugs, which is beneficial for the Company to efficiently utilize the production lines and avoid idle factory buildings, equipment and loss of personnel, so as to generate more revenue for the Group. At the same time, it will be beneficial for the Company to develop new business, satisfy the Company's future development needs, enhance the Company's competitiveness and create more value for the Company.

The Board (including the independent non-executive Directors) are of the view that the terms of the Entrusted Production and Inspection Services Framework Agreement and the transaction contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and the annual caps are on normal commercial terms and fair and reasonable and in the interests of the Company and Shareholders as a whole.



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## LETTER FROM THE BOARD

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### IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Sunshine Lake Pharma is entitled to control the exercise of approximately 51.41% of voting rights of the Company and is therefore a controlling shareholder and a connected person of the Company. Shenzhen HEC Industrial is the holding company of the Sunshine Lake Pharma. Therefore, Shenzhen HEC Industrial constitutes a connected person of the Company by virtue of being the holding company of the controlling shareholder of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the transactions between the Company and Shenzhen HEC Industrial constitute connected transactions of the Company.

Reference is made to the announcement of the Company dated 27 April 2022 in relation to, among others, the entering into the Leasing and Other Services Framework Agreement and the API and Pharmaceutical Products Sales Framework Agreement. The Board would like to clarify that the Leasing and Other Services Framework Agreement and the API and Pharmaceutical Products Sales Framework Agreement shall be aggregated with the transactions entered into between the Group and Shenzhen HEC Industrial Group in the preceding 12 months pursuant to Rule 14A.81 of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the proposed annual caps of the Continuing Connected Transaction Agreements when aggregated with the transactions entered into between the Group and Shenzhen HEC Industrial Group in the preceding 12 months pursuant to Rule 14A.81 of the Listing Rules exceeds 5%, each of the Continuing Connected Transaction Agreements, each of the transactions as contemplated thereunder and the respective annual cap in respect of each of the Continuing Connected Transaction Agreements are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Tang Xinfu, a non-executive Director, is considered to have a material interest in the transactions contemplated between the Group and Shenzhen HEC Industrial by virtue of his position as a director and general manager of Shenzhen HEC Industrial and has abstained from voting on the Board resolution approving the transactions contemplated between the Group and Shenzhen HEC Industrial Group.

### CIRCUMSTANCES FOR NON-COMPLIANCE WITH THE LISTING RULES

The Group has from time to time conducted certain procurement, entrust processing, sales and leasing transactions with Shenzhen HEC Industrial Group since its listing. In response to the renewal of the Continuing Connected Transactions between the Group and Shenzhen HEC Industrial Group for the year ending 31 December 2022, the Company has been preparing relevant disclosures under Chapter 14A of the Listing Rules. During the process of finalizing certain information to this circular by the Company in relation to the Continuing Connected Transactions, the amount of transactions conducted between the Group and Shenzhen HEC Industrial Group, on an aggregate basis, have exceeded the corresponding threshold and therefore failed to comply with the requirements of the relevant provisions of Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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Such non-compliance was due to misunderstanding by the Company's staff that the Continuing Connected Transactions have already been complied with relevant Listing Rules upon the issuance of announcement of the Company on 27 April 2022. The Company sincerely apologises that such misunderstanding has occurred.

### REMEDIAL MEASURES

Upon identifying the non-compliance incidents, the Company immediately acknowledged that rectifying and preventing further non-compliance was of utmost priority. Accordingly, the following remedial actions have been formulated and will be taken by the Company to mitigate and remedy such non-compliance incidents, including:

- (a) conduct additional training for the management and staff of the Group on the compliance obligations under Chapter 14A of the Listing Rules;
- (b) seek legal advice and guidance from external legal advisers; and
- (c) the Company has commenced and will continue monitoring the transactions conducted with Shenzhen HEC Industrial Group on an aggregate manner pursuant to the requirements of Listing Rules.

The Board is of the view that the abovementioned remedial measures adopted by the Company are adequate and has been remediated the non-compliance incidents. The Company shall continue to enhance its compliance control matters of its businesses, thereby avoiding the re-occurrence of similar incidents. Going forward, the Company will (i) continue to comply with applicable requirements under Chapter 14A of the Listing Rules for future continuing connected transactions, including the transactions to be conducted with Shenzhen HEC Industrial Group (or any other connected persons) in the future, or transactions of a similar nature as the Continuing Connected Transactions; and (ii) carry out relevant corporate governance procedures and make appropriate disclosure in a timely manner to ensure compliance with the Listing Rules.

### 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 and in order to prevent the recurrence of similar non-compliance incidents and ensure timely compliance with the relevant requirements of the Listing Rules in the future, the Company has implemented or will implement the following internal control and remedial measures:

- (1) The Company will regularly review the transactions to be entered into with Shenzhen HEC Industrial Group to identify any transactions that maybe at risk of exceeding the annual cap and any measures to be introduced in response to such transactions. The finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions at the end of each month, reporting to the Board, regarding, among other things, implementation of the Continuing Connected Transactions and the actual monetary amount of the Continuing Connected Transactions conducted during each quarter from January to September and at the

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## LETTER FROM THE BOARD

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end of each month from October to December (or more frequently if necessary). 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, such as re-calculating the annual caps for the relevant year. The Company will commence the process to increase annual caps (including to obtain Shareholders' approval) and leave approximately 2 to 3 months to complete such process;

- (2) The business planning executives will be responsible for the pricing management and will guide various departments and units to establish the procedures and mechanism of professional price management, so as to ensure that the pricing standard is fair and reasonable, and conforms with the market principle. Market prices will be obtained through, among other things, open tenders/quotations from independent third-party suppliers and service providers, recent transaction prices of the Company with independent third parties, pricing information obtained through subscription service and researches on industry websites. The market price information will be circulated by the procurement department to other departments of the Company to enable them to determine the prices for the Continuing Connected Transactions;
- (3) The business planning executives will (i) regularly compare with the price list of the Group to ensure the selling price charged to Shenzhen HEC Industrial Group is at least on the same bases and same rates for similar products sold to independent third parties by the Group; (ii) obtain quotation from Shenzhen HEC Industrial Group for each purchase and compare the quotations of similar products and services from at least two other independent suppliers to ensure the price competitiveness of products and services before placing a purchase order(s) with Shenzhen HEC Industrial Group;
- (4) The Company has formulated a series of internal control measures and policies to ensure that the Continuing Connected Transactions will be carried out in accordance with the terms of each of Continuing Connected Transaction Agreements and the relevant pricing principles. The finance department of the Company will inform procurement department the amount of proposed annual caps of the Continuing Connected Transactions and monitor from time to time if such annual caps are exceeded. The finance department will also approve the payment to be made to Shenzhen HEC Industrial Group to ensure that the payment terms are in line with the relevant Continuing Connected Transaction Agreements;
- (5) The independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the Continuing Connected Transactions every year in accordance with the requirements of the Listing Rules;

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## LETTER FROM THE BOARD

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- (6) To organise training twice a year and circulate compliance guidance and materials on a regular basis to staff responsible for handling connected transactions so as to remind and refresh their knowledge and understanding on the requirements of Listing Rules, especially the rules on connected transactions;
- (7) To provide the management of the Company with a list of the connected persons of the Company on a regular basis and making monthly updates thereto;
- (8) To improve the coordination and communication among various departments and subsidiaries of the Company responsible for reporting, monitoring and handling connected transactions, such as provision of regular trainings, sharing of information among operations department, finance department and procurement department; and
- (9) To monitor the transaction amounts of continuing connected transactions with connected persons as well as the transaction amounts for any other transactions to be conducted with connected persons, such as the procurement department will seek advice from financial department and office of the Board on transaction limit before entering into individual agreements with connected persons, to ensure that better coordination and reporting arrangements of connected transactions will be carried out among various departments of the Company responsible for reporting, monitoring and handling connected transactions.

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 Transactions 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 Transactions are conducted as agreed under the Continuing Connected Transaction Agreements, respectively and in compliance with the requirements under Chapter 14A of the Listing Rules.

### **Reliance on Shenzhen HEC Industrial Group**

As the proposed annual caps for Continuing Connected Transactions for the year ended 31 December 2021 and for the year ending 31 December 2022 between the Group and Shenzhen HEC Industrial Group is expected to be decreasing from approximately RMB424 million to RMB373 million, it is anticipated that the expected Continuing Connected Transactions between the Group and Shenzhen HEC Industrial Group are decreasing.

Throughout 2021, the Group has continued its efforts in diversifying its customers suppliers throughout years of the Group's development, and it is the Group's intention to continue to broaden its customer base and gain wider market recognition in the pharmaceutical industry.

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## LETTER FROM THE BOARD

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In this connection, the Group has been expanding its sales team to actively search for new clients, such as medical institutions. At the same time, the Group provided extensive training to its sales team in particular skills to approach and draw in new clients. The sales team has been consolidating its path in academic promotion of core products and further expand the primary healthcare market to reach potential clients regularly. To the best of the Directors' knowledge, for the two years ended 31 December 2021, in addition to the sales transactions of pharmaceutical products with Shenzhen HEC Industrial Group, the Company also conducted sales of pharmaceutical products with 678 and 510 independent third party distributors. The Company regularly updates its database of information of independent third party distributors such as their procurement amount of certain pharmaceuticals and financial information so our sales team can develop better strategies to pitch our products. As a result of such efforts, the Group engaged in new business relationships with 778 independent third party distributors since 2020.

The Group plans to allocate even more resources on the above-mentioned measures to better explore opportunities to cooperate with other independent third party distributors in the future, so we can further lower our customer concentration risks. Given the Group's scale of operation and capability in manufacturing of pharmaceutical products, the Directors believe that it would not be difficult for the Group to continue to cooperate with other new suppliers.

Further, when choosing for appropriate service suppliers in relation to similar transactions contemplated under the Continuing Connected Transaction Agreements, apart from obtaining quotations from Shenzhen HEC Industrial Group, the Company would also seek for quotations from independent third parties as well as take into account of the overall market trend. If quotations provided by Shenzhen HEC Industrial Group are higher than that of third-party and relevant cost and profit margin are higher than industry average, the Board will make reasonable choice in the best interest of the Company and its Shareholders.

To the best of the Directors' knowledge, for the two years ended 31 December 2021, in addition to conduct transactions of pharmaceutical products with Shenzhen HEC Industrial Group, the Company also purchased pharmaceutical products from 20 and 12 independent suppliers, respectively. The Company regularly updates its database of information of suppliers such as their product mix and production capacity. As a result of such efforts, the Group engaged in new business relationships with 24 independent suppliers in the past two years. In February, June and November 2021, the Group participated in tender process 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) and certain products of the Group have won the bid for the centralized procurement. The Group will continue improving its income structure, which will have a positive impact on operating performance of the Group in the future.

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## LETTER FROM THE BOARD

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The Directors consider that the entering into the Continuing Connected Transaction Agreements enable the Group to generate revenue from a recurring customer/supplier, while providing a framework to protect the interests of the Group, and allows the Group to secure a stable source of products and services supplies of which the Group is satisfied with the quality. As the Continuing Connected Transaction Agreements do not impose any obligation on the part of the Group to sell or purchase a committed amount of products and services to or from the Shenzhen HEC Industrial Group, or restrict the Group from selling products and services to or purchasing products and services from other independent third parties. In light of the aforesaid reasons, the Directors are of the view that the Group does not have any reliance on Shenzhen HEC Industrial Group.

### 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.

#### Shenzhen HEC Industrial

Shenzhen HEC Industrial is a company incorporated in the PRC and is a holding company of Sunshine Lake Pharma, a controlling Shareholder of the Company. Shenzhen HEC Industrial, through the companies controlled by it, engages in various businesses, including manufacturing and supplying of pharmaceuticals and aluminum products, new energy and electric materials. The ultimate beneficial owner of Shenzhen HEC Industrial are Ms. Guo Meilan and Mr. Zhang Yushuai.

#### 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 Monday, 22 August 2022 for Shareholders to consider and, if thought fit, to approve the Continuing Connected Transaction Agreements and their respective proposed annual cap.

Shenzhen HEC Industrial and its associates, such as Sunshine Lake Pharma and HEC (Hong Kong) Sales Co., Limited are required to abstain from voting on the resolutions to be proposed at the EGM to approve the Continuing Connected Transaction Agreements and their respective proposed annual cap.



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## LETTER FROM THE BOARD

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A notice convening the EGM, together with the form of proxy for use at the EGM, has been despatched to the Shareholders on Tuesday, 2 August 2022 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 Sunday, 21 August 2022) or any adjournment thereof. Please note that 20 August 2022 and 21 August 2022 are not working days in Hong Kong and Computershare Hong Kong Investor Services Limited's offices will not be open on these days for physical delivery of the form of proxy. 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 will be closed for registration of transfer of Shares from Wednesday, 17 August 2022 to Monday, 22 August 2022 (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 on Wednesday, 17 August 2022 shall be entitled to attend and vote at the EGM. In order for the Shareholders to be qualified for attending and voting at the EGM, all transfer documents, accompanied by the relevant Share certificates, must be lodged with the Company's Board office at Securities Department, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC (for holders of Domestic Shares), or the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) no later than 4:30 p.m. on Tuesday, 16 August 2022 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.

### RECOMMENDATION OF THE BOARD

The Board is of the opinion that the Continuing Connected Transaction Agreements and their respective proposed annual cap are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the EGM.



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## LETTER FROM THE BOARD

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Mr. Tang Xinfu, a non-executive Director, is considered to have a material interest in the transactions contemplated between the Group and Shenzhen HEC Industrial by virtue of his position as a director and general manager of Shenzhen HEC Industrial and has abstained from voting on the Board resolution approving the transactions contemplated between the Group and Shenzhen HEC Industrial Group.

### **RECOMMENDATIONS OF THE INDEPENDENT FINANCIAL ADVISOR AND THE INDEPENDENT BOARD COMMITTEE**

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Continuing Connected Transactions Agreements and their respective proposed annual cap as contemplated thereunder, and Gram Capital has been appointed as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders on the same.

The Independent Financial Advisor considers that the Continuing Connected Transactions Agreements and their respective proposed annual cap 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 Financial Advisor recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Continuing Connected Transactions Agreements and their respective proposed annual cap as contemplated thereunder. The full text of the Letter from Independent Financial Advisor issued by Gram Capital containing its recommendation in respect of the Continuing Connected Transactions Agreements and their respective proposed annual cap as contemplated thereunder is set out on pages 49 to 96 of this circular.

The Independent Board Committee, having taken into account the advice of the Independent Financial Advisor, considers the Continuing Connected Transactions Agreements and their respective proposed annual cap 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 the Continuing Connected Transactions Agreements and their respective proposed annual cap as contemplated thereunder. The full text of the Letter from the Independent Board Committee is set out on pages 47 to 48 of this circular.

Yours faithfully

On behalf of the Board

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

**TANG Xinfu**

*Chairman*



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

**宜昌東陽光長江藥業股份有限公司**

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

**(Stock Code: 01558)**

2 August 2022

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

- 1. ENERGY PURCHASE FRAMEWORK AGREEMENT;**
  - 2. APIs PURCHASE AGREEMENT;**
  - 3. PACKAGING AND PRODUCTION MATERIALS PURCHASE FRAMEWORK AGREEMENT;**
  - 4. EQUIPMENT PURCHASE AND CIVIL CONSTRUCTION FRAMEWORK AGREEMENT;**
  - 5. ENTRUSTED PROCESSING FRAMEWORK AGREEMENT;**
  - 6. LEASING AND OTHER SERVICES FRAMEWORK AGREEMENT;**
  - 7. APIs AND PHARMACEUTICAL PRODUCTS SALES FRAMEWORK AGREEMENT;**
- AND**
- 8. ENTRUSTED PRODUCTION AND INSPECTION SERVICES FRAMEWORK AGREEMENT**

We refer to the circular of the Company dated 2 August 2022 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board as the members of the Independent Board Committee to consider the Continuing Connected Transactions Agreements and their respective proposed annual cap and to advise the Independent Shareholders in respect of the Continuing Connected Transactions Agreements and their respective proposed annual cap. Gram Capital has been appointed as the Independent Financial Advisor in this regard.

We wish to draw your attention to the “Letter from the Board” and the “Letter from Independent Financial Advisor” as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Advisor as set out in their letter of advice, we consider the Continuing Connected Transactions Agreements and their respective proposed annual cap 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 the Continuing Connected Transactions Agreements and their respective

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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proposed annual cap are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions the Continuing Connected Transactions Agreements and their respective proposed annual cap 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 THE INDEPENDENT FINANCIAL ADVISOR

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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 Continuing Connected 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

2 August 2022

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

Dear Sir/Madam,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 2 August 2022 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 27 April 2022, the Company entered into the Continuing Connected Transactions Agreements with Shenzhen HEC Industrial. Pursuant to the Continuing Connected Transactions Agreements, the Company and Shenzhen HEC Industrial Group will mutually provide certain products and services for a term from 27 April 2022 to 31 December 2022.

With reference to the Board Letter, the transactions contemplated under each of the Continuing Connected Transactions Agreement constitute continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. TANG Jianxin, Mr. ZHAO Dayao, Ms. XIANG Ling and Mr. LI Xuechen (all being the independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Continuing Connected 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 resolutions to approve the Continuing Connected 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to (i) discloseable and connected transactions (details of which are set out in the Company's circular dated 28 May 2021); and (ii) continuing connected transactions and connected transaction (details of which are set out in the Company's circular dated 28 May 2021). Save for the aforesaid engagements, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company with executed agreement during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagements, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

Having considered the above and that (i) none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagements were only independent financial adviser engagements and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

### BASIS OF OUR OPINION

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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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, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

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 and Shenzhen HEC Industrial Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Continuing Connected 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. Background of and reasons for the Continuing Connected Transactions

##### *Information on the Company*

With reference to the Board Letter, 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.

Set out below is the audited consolidated financial information of the Company for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 (the "2021 Annual Report"):

	For the year ended 31 December 2021 ("FY2021") RMB'000	For the year ended 31 December 2020 ("FY2020") RMB'000	Change from FY2020 to FY2021 %
Revenue	913,788	2,348,113	(61.08)
— Sales of anti-viral drugs	559,973	2,071,614	(72.97)
— Sales of endocrine and metabolic drugs	77,633	94,529	(17.87)
— Sales of cardiovascular drugs	96,148	66,780	43.98
— Sales of anti-infectives drugs	80,689	64,617	24.87
— Sales of other medical products	99,345	50,573	96.44
Gross profit	483,699	1,996,566	(75.77)
(Loss)/Profit attributable to owners of the Company	(587,649)	839,455	N/A

As illustrated in the above table, the Group recorded a substantial decrease of approximately 61.08% in revenue for FY2021 as compared that for FY2020. With reference to the 2021 Annual Report, the aforesaid decrease was mainly attributed to the fact that at the beginning of the COVID-19 pandemic outbreak, 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 THE INDEPENDENT FINANCIAL ADVISOR

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The Group recorded gross profit of approximately RMB483.70 million, representing a significant decrease of approximately 75.77% as compared to that for FY2020. With reference to the 2021 Annual Report, such decrease was mainly due to the decrease in revenue from Kewei for FY2021, which is a product with high gross profit margin, and the increase in the inventory provision.

Loss attributable to owners of the Company for FY2021 was approximately RMB587.65 million as compared with profit attributable to owners of the Company of approximately RMB839.46 million for FY2020. With reference to the 2021 Annual Report, such turnaround was primarily attributable to the decrease in the Group's gross profit and the increase in the Group's administrative expenses.

With reference to the 2021 Annual Report, the pharmaceutical industry will continue to play a pivotal role in enhancing national health and maintaining the national economy and livelihood. With the continuous implementation of a series of policies such as consistency evaluation of generic drugs, bulk purchase and negotiation on medical insurance, the Group will comply with national policies, continue to promote research and development and innovation to enrich its product portfolio; strengthen production management capabilities to ensure the supply of high-quality products; and improve the establishment of the sales team, to fully utilize the advantages of academic promotion and increase the coverage of medical institutions at all levels.

With reference to the Company's announcement dated 11 March 2022, based on the current available unaudited consolidated management accounts of the Group, the Group recorded an operating income of approximately RMB578 million for the two months from 1 January 2022 to 28 February 2022, representing an increase of approximately 588% as compared to the same period in 2021. The increase in operating income of the Group was mainly due to the domestic epidemic prevention and control in China has generally stabilized, the flow of people and daily social activities have gradually returned to normal, and the overall flow of people, the number of diagnosis and treatment activities and the volume of prescriptions in terminal medical institutions have recovered significantly. In addition, the Group actively carried out academic promotion and the expansion of new channels, the sales volume of medicines showed a very good trend of recovery. In the future, with the further strengthening of domestic epidemic prevention and control and the launch and promotion of more product portfolios of the Group, the overall performance of the Group will be further improved.

### *Information on Shenzhen HEC Industrial*

With reference to the Board Letter, Shenzhen HEC Industrial is a company incorporated in the PRC and is a holding company of Sunshine Lake Pharma, a controlling Shareholder of the Company. Shenzhen HEC Industrial, through the companies controlled by it, engages in various businesses, including manufacturing and supplying of pharmaceuticals and aluminum products, new energy and electric materials. The ultimate beneficial owners of Shenzhen HEC Industrial are Ms. Guo Meilan and Mr. Zhang Yushuai.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### 2. Reasons for and benefits of the Continuing Connected Transactions

Reasons for and benefits of the Continuing Connected Transactions are set out under the sub-section headed “Reasons for the transaction” under the sections relating to each of the Continuing Connected Transactions Agreements in the Board Letter.

As advised by the Directors, the products/services under the Continuing Connected Transactions as provided by the Shenzhen HEC Industrial Group to the Group were to ensure the normal engagement of the Group’s production and commercial activities.

In addition, the products/services under the Continuing Connected Transactions as provided by the Group to the Shenzhen HEC Industrial Group are revenue in nature. It is beneficial for the Group to efficiently utilize the production lines and avoid idle factory buildings, equipment and loss of personnel.

For those pharmaceutical products which have won the tender for the centralized procurements by members within the Shenzhen HEC Industrial Group (i.e. Olanzapine Orally Disintegrating Tablets (奧氮平口崩片) and Olanzapine Tablets (奧氮平片)), the 上市許可持有人 (Market Launch Permit Owner\*) of such pharmaceutical products are Sunshine Lake Pharma. Therefore, the Group will supply pharmaceutical products (which the Group is approved to act as production unit (生產單位) or APIs (for the products which the production unit is Sunshine Lake Pharma only) to Shenzhen HEC Industrial Group.

As the Continuing Connected Transactions will be entered into in the ordinary and usual course of business of the Group and on a frequent basis, 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).

Based on the above, we consider that the Continuing Connected 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### 3. Principal terms of the Continuing Connected Transactions

Set out below are the key terms of the Continuing Connected Transactions, details of which are set out under the sections headed “CONTINUING CONNECTED TRANSACTIONS PROVIDED BY SHENZHEN HEC INDUSTRIAL GROUP TO THE GROUP” and “CONTINUING CONNECTED TRANSACTIONS PROVIDED BY THE GROUP TO SHENZHEN HEC INDUSTRIAL GROUP” of the Board Letter.

#### *A. Energy Purchase Framework Agreement*

Date:	27 April 2022
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and  (ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term:	From 27 April 2022 to 31 December 2022
Nature of transaction:	The Company agreed to purchase electricity and steam power (“ <b>Energy</b> ”) required for its production from Shenzhen HEC Industrial.
Payment method:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
Pricing policy:	Purchase price for Energy will be determined in accordance with (i) the reply letter from the Price Bureau of Yichang Municipal in relation to the electricity supply price in direct supply district by Yichang HEC Power Plant Co., Ltd.* (宜昌東陽光火力發電有限公司) (“ <b>Yichang HEC Power Plant</b> ”), a direct non-wholly owned subsidiary of Shenzhen HEC Industrial, from time to time; and (ii) the price for similar enterprises as stipulated in the price list for steam supply to enterprise from Price Bureau of Yichang Municipal from time to time, whereas:

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- (i) the electricity supply price in accordance with the benchmark price of approximately RMB0.3329 per kWh, 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), which stipulates that the power supply tariff in the direct supply zone shall not be lower than 80% of the benchmark on-grid tariff in Hubei Province for the same period and shall not be higher than the benchmark on-grid tariff of the Hubei Province for the same period; and
- (ii) the steam supply price is determined with the range of approximately RMB130 per ton to RMB260 per ton, which were the price charged by Yichang HEC Power Plant and Yichang HEC Biochemical Manufacturing Co. Ltd. (宜昌東陽光生化製藥有限公司), a subsidiary of Shenzhen HEC Industrial, to the Group historically.

For electricity supply price, we obtained relevant government document and acknowledged the electricity supply price in accordance with the benchmark price of approximately RMB0.3329 per kWh. For steam supply price, we noted that 宜昌市招商局 (Yichang Investment Promotion Bureau\*) published price of utilities in April 2022, pursuant to which the steam supply price for urban area is RMB170 to RMB225 per ton. As advised by the Directors, as (i) the production base in Yichang City located in suburban district; and (ii) the pipeline for the transmission steam is currently not connected to the Group's production base in Yichang City and therefore the steam supply price for urban area is not applied to the Group and such price is only a reference price. As the steam supply price offered by Shenzhen HEC Industrial Group is close to steam supply price for urban area announced by 宜昌市招商局 (Yichang Investment Promotion Bureau\*) which is a reference price to the Group and the steam supply price is the same as those historically charged to the Group, we consider the steam supply price is reasonable.

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 transactions 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 will be responsible for checking the price offered by the connected party before entering into of the transactions contemplated under the Energy Purchase Framework Agreement to ensure such price is in line with the government-

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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prescribed price (for electricity) and relevant price range (for steam), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Energy Purchase Framework Agreement.

To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the Energy Purchase Framework Agreement, we conducted following works:

- we discussed with staff of the procurement department of relevant subsidiaries and management of the Company. We noted that such staff are aware of the internal control measures and will comply with the internal control measures when conducting the transactions contemplated under the Energy Purchase Framework Agreement.
- we obtained a list showing the transactions of purchase of electricity and steam (being the Energy to be purchased pursuant to the Energy Purchase Framework Agreement) from connected persons for FY2021. We selected three individual transactions for each of the purchase of electricity and steam on a random basis and further requested the Company to relevant government documents for the pricing of electricity and steam in FY2021.

We consider that the selection of three individual transactions with connected persons for the purchase of each Energy with government documents are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the individual transactions were selected on a random basis regardless of contract size, contract value, etc.; and (ii) the individual transactions covered both the first and second half year of 2021.

Based on the aforesaid documents, we noted that the unit price of electricity and steam as shown in the invoices are the same as the government prescribed price as shown in relevant government documents.

- upon our request, we obtained the internal control document. After reviewing the document, we acknowledged that the contents of internal control document included the abovementioned procedures.

Having considered (i) our discussion with relevant staff; and (ii) our findings on individual transactions as mentioned above, we do not doubt the effectiveness of implementation of the internal control measures for fair pricing of the transactions contemplated under the Energy Purchase Framework Agreement.

In addition, we also noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold.

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### *The proposed annual cap under the Energy Purchase Framework Agreement*

The table below demonstrates (i) the historical transactions amounts for the purchase of Energy from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2021, for the period from 1 January 2022 to 27 April 2022 and for the six months ended 30 June 2022 as extracted from the Board Letter; and (ii) the proposed annual cap for FY2022:

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2021 RMB'000	For the period from 1 January 2022 to 27 April 2022 RMB'000	For the six months ended 30 June 2022 RMB'000
Historical transaction amounts for purchase of Energy from Shenzhen HEC Industrial Group	19,930	22,396.31	35,679.06	291.50	17,189
Previous/Existing annual caps	41,940	49,518.40	55,700	N/A	N/A
Utilisation rate	47.52%	45.23%	64.06%	N/A	N/A
					<b>For the year ending 31 December 2022 RMB'000</b>
Proposed annual cap for purchase of Energy from Shenzhen HEC Industrial Group					56,000.00

We understood that the Directors considered certain factors as set out under the sub-section headed “Proposed annual cap and determination basis” under the section headed “1. Energy Purchase Framework Agreement” of the Board Letter when determining the proposed annual cap for the transactions contemplated under the Energy Purchase Framework Agreement for FY2022.

According to the above table, the estimated amounts (i.e. proposed annual cap) for the purchase of Energy from Shenzhen HEC Industrial Group for FY2022 (i.e. RMB56,000,000) represented a substantial increase of approximately 57.0% as compared to the historical transaction amounts of RMB35,679,060 for FY2021. As advised by the Directors, the estimated substantial increase was mainly due to the launch of the Group’s new product lines for FY2022 and anticipated increase in the

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production of APIs or pharmaceutical products which may result in the demand of energy to be supplied by Shenzhen HEC Industrial Group pursuant to the Energy Purchase Framework Agreement.

Upon our request, we obtained the calculation of the proposed annual cap for FY2022 and noted that the estimated use of Energy for FY2022 was the summation of estimated use of Energy by the Group's different production factories/workshops, which was determined based on the estimated use of Energy (in quantity) and the unit price of Energy as advised by the Directors.

Upon our further request, we obtained estimated use of Energy (in quantity) and the unit price of Energy for each plant or production factory:

- In respect of the unit price of electricity, the Company adopted RMB0.3329 per kWh for estimation purpose, which is the same as the pricing policy of the electricity pursuant to the Energy Purchase Framework Agreement. In respect of the unit price of steam, the Company adopted different prices (which was considered as different distance between different suppliers within the Shenzhen HEC Industrial Group and the Group) which were within the range of the price range of the steam (i.e. RMB130 per ton to RMB260 per ton) pursuant to the Energy Purchase Framework Agreement. Unit price of the Energy in terms of cost of Energy to be consumed for the production of per unit pharmaceutical products were also applied in the process of calculation the estimated amounts of Energy and such unit price was determined with reference to the historical information as advised by the Directors.
- In respect of the estimated use of Energy (in quantity), the Directors advised us that such estimation was made with reference to historical usage of the Energy (such as fixed consumption for the operation of production factories/workshops, monthly usage of relevant production factories/workshops) and the anticipated usage of the Energy for new production factories/workshops to be put into operation in FY2022.

Based on the above information, we noted that the estimated amounts of electricity for FY2022 was approximately RMB35.2 million and the estimated amounts of steam for FY2022 was approximately RMB20.7 million.

Despite that the historical amounts for the purchase of Energy from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for FY2022. Based on the information provided by the Company, the historical amounts for the purchase of Energy from Shenzhen HEC Industrial Group for the first four months of 2021 also accounted for less than 1% of its actual amount for FY2021.



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As the proposed annual cap for FY2022 (i.e. RMB56 million) was close to the summation of the aforesaid estimated amounts of electricity and steam (i.e. RMB55.9 million), we are of the view that the proposed annual cap for FY2022 is fair and reasonable.

Shareholders should note that as the proposed annual cap is relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and it does not represent forecasts of revenue/expenses/costs to be recorded/incurred from the purchase of Energy. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Energy Purchase Framework Agreement will correspond with the proposed annual cap.

### ***B. APIs Purchase Agreement***

Date:	27 April 2022
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and  (ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term:	From 27 April 2022 to 31 December 2022
Nature of transaction:	The Company agreed to purchase certain active pharmaceutical ingredients (“ <b>APIs</b> ”) such as Aripiprazole, Rivaroxaban, Escitalopram Oxalate, Clarithromycin from Shenzhen HEC Industrial.
Payment method:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
Pricing policy:	In selecting the APIs suppliers, the Company will obtain quotations from Shenzhen HEC Industrial Group 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 Shenzhen HEC Industrial Group will be fair and reasonable, on normal commercial terms, and in any event shall be no less favourable to the Group than those available from independent third parties.

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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 APIs Purchase Agreement to ensure the purchase prices of APIs 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 APIs Purchase Agreement.

To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the APIs Purchase Agreement, we conducted following works:

- we discussed with staff of the procurement department of relevant subsidiaries and management of the Company. We noted that such staff are aware of the internal control measures and will comply with the internal control measures when conducting the transactions contemplated under the APIs Purchase Agreement.
- we obtained a list showing the transactions of APIs (being the materials to be purchased pursuant to the APIs Purchase Agreement) from connected persons for FY2021. We selected three individual transactions for purchases of APIs on a random basis and further requested the Company to provide information for the same type of APIs purchased by independent third parties in FY2021.

We consider that the selection of three individual transactions with connected persons for the purchase of APIs with supporting information are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the individual transactions were selected on a random basis regardless of contract size, contract value, etc.; and (ii) the individual transactions covered both the first and second half year of 2021.

Based on the aforesaid documents and with available information, we noted that the unit price of same type of APIs offered by connected persons to the Group were not higher than the then average unit price offered by independent third parties to their clients.

- Upon our request, we obtained the internal control document. After reviewing the document, we acknowledged that the contents of internal control document included the abovementioned procedures.

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Having considered (i) our discussion with relevant staff; and (ii) our findings on individual transactions as mentioned above, we do not doubt the effectiveness of implementation of the internal control measures for fair pricing of the transactions contemplated under the APIs Purchase Agreement.

In addition, we also noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold.

### *The proposed annual cap under the APIs Purchase Agreement*

The table below demonstrates (i) the historical transactions amounts for the purchase of APIs from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2021, for the period from 1 January 2022 to 27 April 2022 and for the six months ended 30 June 2022 as extracted from the Board Letter; and (ii) the proposed annual cap for FY2022:

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2021 RMB'000	For the period from 1 January 2022 to 27 April 2022 RMB'000	For the six months ended 30 June 2022 RMB'000
Historical transaction amounts for purchase of APIs from Shenzhen HEC Industrial Group	3,090	8,803	22,935.47	123.80	18,996
Previous/Existing annual caps	6,400	9,000	32,299.60	N/A	N/A
Utilisation rate	48.28%	97.81%	71.01%	N/A	N/A
					<b>For the year ending 31 December 2022 RMB'000</b>
Proposed annual cap for purchase of APIs from Shenzhen HEC Industrial Group					40,000.00

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We understood that the Directors considered factors set out under the sub-section headed “Proposed annual cap and determination basis” under the section headed “2. APIs Purchase Agreement” of the Board Letter when determining the proposed annual cap for the transactions contemplated under the APIs Purchase Agreement for FY2022.

According to the above table, the estimated amounts (i.e. proposed annual cap) for the purchase of APIs from Shenzhen HEC Industrial Group for FY2022 (i.e. RMB40,000,000) represented a significant increase of approximately 74.4% as compared to the historical transaction amounts of RMB22,935,470 for FY2021. As advised by the Directors, the aforesaid increase was mainly due to the increase in estimated demand of Aripiprazole (阿立哌唑), Rivaroxaban (利伐沙班) and Clarithromycin (克拉霉素) for FY2022 as compared to that for FY2021.

Upon our request, we obtained breakdown of the estimated demand of the API purchase for FY2022. We noted that the increase in estimated demand of Aripiprazole (阿立哌唑), Rivaroxaban (利伐沙班) and Clarithromycin (克拉霉素) (as the materials for pharmaceutical products to be supplied according to centralized procurement or possible centralized procurement) accounted for approximately 77% of the total increase of estimated demand of the API for FY2022.

To assess the fairness and reasonableness of the aforesaid increases in the above three types of APIs, we conducted the following analyses:

- Upon our request, the Directors advised that the materials will be used for producing Aripiprazole Tablets (阿立哌唑片), Aripiprazole Orally Disintegrating Tablets (阿立哌唑口崩片), Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片). According to the Company’s previous announcements, (i) Aripiprazole Tablets (阿立哌唑片) and Rivaroxaban tablets (利伐沙班片) won bid of centralized procurement 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) in June 2021; and (ii) Clarithromycin Tablets (克拉霉素片) won bid of centralized procurement 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) in August 2020. The Company also assumed to win the proposed centralized procurement (which is expected to take place in 2022) for Aripiprazole Orally Disintegrating Tablets (阿立哌唑口崩片).

Upon our further request, the Directors provided us the estimated supplied volume of aforesaid four pharmaceutical products. We noted that the estimated average monthly supplied quantity of Aripiprazole Tablets (阿立哌唑片), Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) for FY2022 represented approximately 105% to 193% to the actual average monthly supplied quantity of the aforesaid three types of pharmaceutical products for FY2021. As explained by the Directors, it was

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mainly due to the fact the end-user customer procured pharmaceutical products much more than the procurement targets under the centralized procurement. Therefore, when determined the estimated supplied volume of pharmaceutical products, the Company assumed there will be an additional procurement quantity of pharmaceutical products in addition to the relevant procurements in previous year. Based on the historical figures and sales target of the above three types of pharmaceutical products, the percentage of actual average monthly supplied quantity of the aforesaid three types of pharmaceutical products for FY2021 to the average target monthly supplied quantity of the aforesaid three types of pharmaceutical products ranged from approximately 223% to 900% (the average of the aforesaid range was approximately 427%).

Having considered that the actual supplied quantity is obviously more than the target supplied amount of relevant pharmaceutical products according to the centralized procurement, we are of the view that the estimated average monthly supplied quantity of Aripiprazole Tablets (阿立哌唑片), Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) for FY2022 are be justifiable.

- The estimated amounts of APIs for producing Aripiprazole Tablets (阿立哌唑片), Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) were then calculated by contents of Aripiprazole (阿立哌唑), Rivaroxaban (利伐沙班) and Clarithromycin (克拉霉素) in Aripiprazole Tablets (阿立哌唑片), Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) respectively times their estimated quantities. The estimated amounts of APIs for producing Aripiprazole Orally Disintegrating Tablets (阿立哌唑口崩片) (being a different form to Aripiprazole Tablets (阿立哌唑片), but with Aripiprazole (阿立哌唑) as one of materials for production) was based on the average amounts of APIs for different specification Aripiprazole Tablets (阿立哌唑片) for FY2022.

Based on the above factors, we consider the increase in estimated demand of Aripiprazole (阿立哌唑), Rivaroxaban (利伐沙班) and Clarithromycin (克拉霉素) for FY2022 as compared to that for FY2021 to be reasonable. As the aforesaid increase accounted for the majority of the total increase in FY2022, we also consider the estimated implied total increase of the API purchase for FY2022 and the proposed annual cap for FY2022 (based on the historical amount for FY2021 and the implied total increase of the API purchase for FY2022) to be fair and reasonable.

Despite that the historical transactions amounts for the purchase of APIs from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for FY2022. Based on the information provided by the Company, the historical amounts for the purchase of APIs from Shenzhen HEC Industrial Group for the first four months of 2021 also accounted for less than 1% of its actual amount for FY2021.

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Shareholders should note that as the proposed annual cap is 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 2022, and it does not represent forecasts of revenue/expenses/costs to be recorded/incurred from the APIs Purchase Agreement. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the API Purchase Agreement will correspond with the proposed annual cap.

Having considered the above, including the principal terms of the transactions contemplated under the API Purchase Agreement and the proposed annual cap, we are of the view that the terms of the transactions contemplated under the API Purchase Agreement are fair and reasonable.

### *C. Packaging and Production Materials Purchase Framework Agreement*

Date:	27 April 2022
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and  (ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term:	From 27 April 2022 to 31 December 2022
Nature of transaction:	The Company agreed to purchase of specific packaging materials and production materials (“ <b>Packaging Materials</b> ”) from Shenzhen HEC Industrial.
Payment method:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days after receiving the Packaging Materials and passing the acceptance tests and receipt of the invoice issued by Shenzhen HEC Industrial.
Pricing policy:	When selecting suppliers of Packaging Materials, the Company will obtain quotations from Shenzhen HEC Industrial and at least two independent third-party suppliers. The prices and terms offered by Shenzhen HEC Industrial will be fair and reasonable, on normal commercial terms, and in any event shall be no less favourable to the Group than those available from independent third parties.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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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 and Production Materials Purchase Framework Agreement to ensure the purchase prices of Packaging Materials 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 and Production Materials Purchase Framework Agreement.

To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement, we conducted following works:

- we discussed with staff of the procurement department of relevant subsidiaries and management of the Company. We noted that such staff are aware of the internal control measures and will comply with the internal control measures when conducting the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement.
- we obtained a list showing the transactions of specific packaging materials and production materials (being the materials to be purchased pursuant to the Packaging and Production Materials Purchase Framework Agreement) from connected persons for FY2021. We selected three individual transactions for each of packaging materials and production materials on a random basis and further requested the Company to provide quotations or prices offered by independent third parties.

We consider that the selection of three individual transactions with connected persons for the purchase of specific packaging materials and production materials with supporting information are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the individual transactions were selected on a random basis regardless of contract size, contract value, etc.; and (ii) the individual transactions covered both the first and second half year of 2021.

Based on the aforesaid documents and with available information, we noted that (i) the unit price of production materials offered by connected person to the Group were not higher than those offered by independent third parties to Group according to relevant invoices; and (ii) the unit price of packaging materials offered by connected person to the Group were not higher than those offered by an independent third party to the Group. Upon our further request, the Directors advised that the Group also collected quotation from other independent third party by way of phone call.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- Upon our request, we obtained the internal control document. After reviewing the document, we acknowledged that the contents of internal control document included the abovementioned procedures.

Having considered (i) our discussion with relevant staff; and (ii) our findings on individual transactions as mentioned above, we do not doubt the effectiveness of implementation of the internal control measures for fair pricing of the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement.

In addition, we also noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold.

*The proposed annual cap under the Packaging and Production Materials Purchase Framework Agreement*

The table below demonstrates (i) the historical transactions amounts for the purchase of Packaging Material from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2021, for the period from 1 January 2022 to 27 April 2022 and for the six months ended 30 June 2022 as extracted from the Board Letter; and (ii) the proposed annual cap for FY2022:

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2021 RMB'000	For the period from 1 January 2022 to 27 April 2022 RMB'000	For the six months ended 30 June 2022 RMB'000
Historical transaction amounts for purchase of Packaging Materials from Shenzhen HEC Industrial Group	44,710	24,659	12,876.41	82.80	17,358
Previous/Existing annual caps	45,200	62,000	24,150	N/A	N/A
Utilisation rate	98.9%	39.8%	53.3%	N/A	N/A

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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For the  
year ending  
31 December  
2022  
RMB'000

Proposed annual cap for purchase of Packaging Materials from Shenzhen HEC Industrial Group	36,000.00
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We understood that the Directors considered factors set out under the sub-section headed “Proposed annual cap and determination basis” under the section headed “3. Packaging and Production Materials Purchase Framework Agreement” of the Board Letter when determining the proposed annual cap for the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement for FY2022.

According to the above table, the historical amounts of Packaging Materials for the three years ended 31 December 2021 moved in a decreasing trend, which was mainly due to the influence of COVID-19 pandemic. The Group’s core product, Kewei, is a prescription medicine sold primarily at tiered hospitals, and the sales volume of this product 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 FY2022. In addition, multiple products of the Group had been approved for launch at end of 2021 and beginning of 2022. The Group also won certain batches of centralized procurement in 2020 and 2021, pursuant to which the Group is expected to continuously supply relevant pharmaceutical products according to the relevant centralized procurement.

In addition, with reference to the Company’s announcement dated 11 March 2022, based on the current available unaudited consolidated management accounts of the Group, the Group recorded an operating income of approximately RMB578 million for the two months from 1 January 2022 to 28 February 2022, representing an increase of approximately 588% as compared to the same period in 2021. The increase in operating income of the Group was mainly due to the domestic epidemic prevention and control in China has generally stabilised, the flow of people and daily social activities have gradually returned to normal, and the overall flow of people, the number of diagnosis and treatment activities and the volume of prescriptions in terminal medical institutions have recovered significantly. In addition, the Group actively carried out academic promotion and the expansion of new channels, the sales volume of medicines showed a very good trend of recovery. In the future, with further strengthening of domestic epidemic prevention and control and the launch and promotion of more product portfolios of the Group, the overall performance of the Group will be further improved.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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We noted that the proposed annual cap for the purchase of the Packaging Materials from Shenzhen HEC Industrial Group for FY2022 represented (i) a significant increase of approximately 179.6% as compared to the historical transaction amount for FY2021; (ii) a substantial increase of approximately 46.0% as compared to historical transaction amount for FY2020; and (iii) a decrease of approximately 19.5% as compared to the historical transaction amount for FY2019. Having also considered that (i) the Group recorded a very significant increase of approximately 588% for the two months ended 28 February 2022 as compared to that for the corresponding period in 2021; (ii) the Directors that they expected the sales volume of Kewei to be gradually resumed in FY2022; (iii) multiple products of the Group had been approved for launch at end of 2021 and beginning of 2022 and the Group is expected to continuously supply relevant pharmaceutical products according to the relevant centralized procurement, we consider the proposed annual cap for the purchase of the Packaging Materials from Shenzhen HEC Industrial Group for FY2022 to be fair and reasonable.

Despite that the historical transactions amounts for the purchase of Packaging Material from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for FY2022. Based on the information provided by the Company, the historical amounts for the purchase of Packaging Material from Shenzhen HEC Industrial Group for the first four months of 2021 also accounted for less than 1% of its actual amount for FY2021.

Shareholders should note that as the proposed annual cap is 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 2022, and it does not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Packaging and Production Materials Purchase Framework Agreement. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement will correspond with the proposed annual cap.

Having considered the above, including the principal terms of the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement and the proposed annual cap, we are of the view that the terms of the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement are fair and reasonable.

### ***D. Equipment Purchase and Civil Construction Framework Agreement***

Date: 27 April 2022

Parties: (i) the Company (for itself and on behalf of its subsidiaries); and  
(ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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Term:	From 27 April 2022 to 31 December 2022
Nature of transaction:	The Company agreed purchase of certain equipment and civil construction services (“ <b>Equipment and Civil Construction Services</b> ”) from Shenzhen HEC Industrial.
Payment method:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
Pricing policy:	The price charged by Shenzhen HEC Industrial to the Group for the purchase of Equipment and Civil Construction Services, adopts a “cost-plus” mechanism in which a range of 10%–15% (equipment) and 5%–10% (civil construction services) of the profit is charged, respectively.

According to the calculation of proposed annual cap and as advised by the Directors the equipment were mainly metalware products such as storage tank, pipeline, water tank products, which were processed by metal materials. We therefore searched for the gross profit margins of companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange which are participants in metal products industry (including steel and steel related products, metal manufacturing products, steel pipeline products). Based on information obtained from Wind Financial Terminal <sup>(note)</sup>, the gross profit margin of such companies ranged from approximately 7.41% to 18.48% (excluding outlier), representing premiums of approximately 8.00% to 22.67% to costs (average: approximately 13.18%), for FY2021. In addition, we also searched for the gross profit margins of companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange which are participants in housing construction industry. Based on information obtained from Wind Financial Terminal, the gross profit margin of housing construction industry ranged from approximately 4.83% to 20.54%, representing premiums of approximately 5.08% to 25.84% to their costs (average: approximately 13.05%), for FY2021.

As the Shenzhen HEC Industrial Group will charge smaller or within-range margins as compared to those of the relevant industries, we consider the range of margin of 10% to 15% for the purchase of equipment (as compared to range of 8.00% to 22.67% with average of approximately 13.18%) and 5% to 10% for the purchase of civil construction services (as compared to range of 5.08% to 25.84% with average of approximately 13.05%) 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

*Note:* Based on the website of Wind (www.wind.com.cn), Wind Financial Terminal provides investment professionals with the data and insights they need to understand China’s complex capital markets and economy. Wind Financial Terminal integrates the most comprehensive and accurate market data, fundamental data, research, news, and analytics tools across all asset classes in China.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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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/services (or to procure the connected person to provide cost of relevant products/services) before entering into of the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. 10% to 15% for the purchase of equipment and 5% to 10% for the purchase of civil construction services), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement.

To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement, we conducted following works:

- we discussed with staff of the procurement department, production department and finance department of relevant subsidiaries and management of the Company. We noted that such staff are aware of the internal control measures and will comply with the internal control measures when conducting the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement.
- As the internal control measures for accepting civil construction services under the Equipment Purchase and Civil Construction Framework Agreement were more detailed and specific as compared to the previous internal control measures for such services, we consider it is not applicable for us to assess the effectiveness of the implementation of the internal control measures for governing fair pricing for accepting civil construction services by reference to the implementation status of previous internal control measures.

Therefore, we obtained only a list showing the transactions of purchase of equipment (being the assets to be purchased pursuant to the Equipment Purchase and Civil Construction Framework Agreement) from connected persons for FY2021. We selected three individual transactions for purchase of equipment on a random basis and obtained invoices showing the consideration paid by the Group for such equipment and breakdown of cost for production of such equipment (including material cost, labour cost, power expenses, etc.).

We consider that the selection of three individual transactions with connected persons for the purchase of equipment with supporting information are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the individual

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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transactions were selected on a random basis regardless of contract size, contract value, etc.; and (ii) the individual transactions covered both the first and second half year of 2021.

Based on the aforesaid documents and with available information, we noted that the range of implied percentage of premium to cost of the equipment (calculated by (consideration – cost) / cost) as purchased from connected persons were not higher than the range of 10% to 15%).

- Upon our request, we obtained the internal control document. After reviewing the document, we acknowledged that the contents of internal control document included the abovementioned procedures.

Having considered (i) our discussion with relevant staff; and (ii) our findings on individual transactions as mentioned above, we do not doubt the effectiveness of implementation of the internal control measures for fair pricing of the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement.

In addition, we also noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold.

*The proposed annual cap under the Equipment Purchase and Civil Construction Framework Agreement*

The table below demonstrates (i) the historical transactions amounts for the purchase of Equipment and Civil Construction Services from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2021, for the period from 1 January 2022 to 27 April 2022 and for the six months ended 30 June 2022 as extracted from the Board Letter; and (ii) the proposed annual cap for FY2022:

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2021 RMB'000	For the period from 1 January 2022 to 27 April 2022 RMB'000	For the six months ended 30 June 2022 RMB'000
Historical transaction amounts for the purchase of Equipment and Civil Construction Services	73,080	105,748	41,727.31	—	8,989
Previous/Existing annual caps	110,950	179,863	62,943.05	N/A	N/A
Utilisation rate	65.87%	58.79%	66.29%	N/A	N/A

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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For the  
year ending  
31 December  
2022  
RMB'000

Proposed annual cap for the purchase of Equipment and Civil Construction Services	37,000.00
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We understood that the Directors considered factors set out under the sub-section headed “Proposed annual cap and determination basis” under the section headed “4. Equipment Purchase and Civil Construction Framework Agreement” of the Board Letter when determining the proposed annual cap for the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement for FY2022.

As stated in the Board Letter, in view of the impact of the COVID-19 pandemic in previous years, the Group’s certain civil engineering construction projects were suspended or slowed down from time to time, resulting in the delay of completion of the relevant projects to 2022 and delay of settlement of the relevant amount. Therefore, in 2022, the Group mainly undertook projects that were not completed in previous years. In addition, a number of projects of the Group in 2021 are mainly at the construction stage, including custom-made three workshop (定制合成三車間), recycling workshop equipment, other equipment and sporadic projects. In 2022, as most of the projects are put into use, sporadic maintenance is required, and it is expected that additional transaction amounts will be incurred. Therefore, the Group set the annual cap amount based on the completion budget of the above projects by the end of 2022.

As advised by the Directors, the amount related to the delay of completion of the relevant projects to 2022 and delay of settlement of the relevant amount was approximately RMB9 million.

In respect of the remaining estimated amounts of approximately RMB28 million for FY2022, the Directors provided us a breakdown of such estimation. According to the breakdown, the estimated amounts of approximately RMB28 million comprised of cost for various equipment and services. In respect of the cost for various equipment, we obtained a list of equipment together with unit price of each equipment. In respect of cost for relevant services (i.e. installation, maintenance, repairment, etc.), as advised by the Directors, such estimation was made by Shenzhen HEC Industrial Group with reference to, among other things, historical cost of such services, relevant workload and prevailing market practice.

We acknowledged the estimated amounts of approximately RMB28 million for FY2022 by the summation of all equipment costs (calculated by unit cost times volume (the quantity of most equipment was one unit) and services cost. We further requested the Company to provide us with detailed estimation of cost for three



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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different equipments and noted that the relevant equipment cost was calculated by (i) the summation of certain cost for the equipments, such as material costs, labour costs, etc.; and (ii) a 10% margin on the aforesaid summation, which is in line with the pricing policy (i.e. the price charged by Shenzhen HEC Industrial to the Group for the purchase of Equipment and Civil Construction Services, adopts a “cost-plus” mechanism in which a range of 10%-15% (equipment) and 5%-10% (civil construction services) of the profit will be charged, respectively).

As the proposed annual cap of RMB37 million represented the estimated amounts for relevant projects with delay of settlement (i.e. RMB9 million) and costs of for different equipment and services (i.e. installation, maintenance, repairment, etc.) (i.e. RMB28 million), we are of the view that the proposed annual cap for FY2022 are fair and reasonable.

We also noted that the Group did not record any transaction amounts for the purchase of Equipment and Civil Construction Services from Shenzhen HEC Industrial Group for the first four months of 2021.

Shareholders should note that as the proposed annual cap is relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and it does not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Equipment Purchase and Civil Construction Framework Agreement. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement will correspond with the proposed annual cap.

### ***E. Entrusted Processing Framework Agreement***

Date: 27 April 2022

Parties: (i) the Company (for itself and on behalf of its subsidiaries); and  
(ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)

Term: From 27 April 2022 to 31 December 2022

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- Nature of transaction: The Company agreed to purchase pharmaceutical processing services (“**Processing Services**”) for its certain pharmaceutical products, including Olmesartan Tablets, Moxifloxacin Hydrochloride Tablets, Clarithromycin Tablets, Aripiprazole Tablets, Levofloxacin Tablets, Rivaroxaban Tablets, Duloxetine Enteric-coated Capsules, Escitalopram Tablets, Xadiafil Tablets, Aripiprazole Orally Disintegrating Tablets, Entacapone Tablets, Febuxostat Tablets, Apixaban Tablets, Mitoglol Sustained Release Tablets, Atorvastatin Calcium Tablets, Rongliflozin and other APIs from Shenzhen HEC Industrial.
- Payment method: The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
- Pricing policy: A “cost-plus” mechanism is adopted for the price of the processing fee payable by Group to Shenzhen HEC Industrial. In addition to the necessary costs and expenses incurred for the processing services, Shenzhen HEC Industrial charges the Group an additional fee within approximately 10–20% of the processing fee.

As advised by the Directors, as the pharmaceutical products pursuant to the Entrusted Processing Framework Agreement will be further sold by the Group, the additional fee of approximately 10–20% was determined with reference to the average gross profit margin of the sale of the pharmaceutical products.

Upon our further request, the Directors provided us the revenue and cost of the above-mentioned pharmaceutical products. The average gross profit margin of the above-mentioned pharmaceutical products amounted to approximately 21.1%, indicating premium of approximately 26.8% to their costs. As Shenzhen HEC Industrial Group will charge a smaller margin as compared to the gross profit margin of the pharmaceutical products pursuant to the Entrusted Processing Framework Agreement, we consider the range of margin of approximately 10% to 20% 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 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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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not exceed the estimated cost plus relevant margin (i.e. within approximately 10% to 20% 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 Agreement.

To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the Entrusted Processing Framework Agreement, we conducted following works:

- we discussed with staff of the procurement department and finance department of relevant subsidiaries and management of the Company. We noted that such staff are aware of the internal control measures and will comply with the internal control measures when conducting the transactions contemplated under the Entrusted Processing Framework Agreement.
- we obtained a list showing the transactions of processing services (being the services to be provided pursuant to the Entrusted Processing Framework Agreement) from connected persons for FY2021. We selected three individual transactions of processing services on a random basis and obtained invoices showing the consideration paid by the Group for such services and breakdown of cost for such processing services (including material cost, labour cost, package cost, testing cost, etc.).

We consider that the selection of three individual transactions with connected persons for the processing services with supporting information are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the individual transactions were selected on a random basis regardless of contract size, contract value, etc.; and (ii) the individual transactions covered both the first and second half year of 2021.

- Based on the aforesaid documents and with available information, we noted that the range of implied percentage of premium to cost of the processing services (calculated by  $(\text{consideration} - \text{cost}) / \text{cost}$ ) provided by connected persons were not higher than the range of 10% to 20%).
- Upon our request, we obtained the internal control document. After reviewing the document, we acknowledged that the contents of internal control document included the abovementioned procedures.

Having considered (i) our discussion with relevant staff; and (ii) our findings on individual transactions as mentioned above, we do not doubt the effectiveness of implementation of the internal control measures for fair pricing of the transactions contemplated under the Entrusted Processing Framework Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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In addition, we also noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold.

### *The proposed annual cap under the Entrusted Processing Framework Agreement*

The table below demonstrates (i) the historical transactions amounts for entrusting of Shenzhen HEC Industrial Group to carry out processing services for its certain pharmaceutical products for each of the three years ended 31 December 2021, for the period from 1 January 2022 to 27 April 2022 and for the six months ended 30 June 2022 as extracted from the Board Letter; and (ii) the proposed annual cap for FY2022:

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2021 RMB'000	For the period from 1 January 2022 to 27 April 2022 RMB'000	For the six months ended 30 June 2022 RMB'000
Historical transaction amounts for entrusting of Shenzhen HEC Industrial Group to carry out processing services for its certain pharmaceutical products	3,190	81,149	52,628.78	230.10	41,703
Proposed annual cap for entrusting of Shenzhen HEC Industrial Group to carry out processing services for its certain pharmaceutical products					For the year ending 31 December 2022 RMB'000 103,066.20

We understood that the Directors considered factors set out under the sub-section headed “Proposed annual cap and determination basis” under the section headed “5. Entrusted Processing Framework Agreement” of the Board Letter when determining the proposed annual cap for the transactions contemplated under the Entrusted Processing Framework Agreement for FY2022.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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According to the above table, the proposed annual cap (i.e. the estimated amounts) for the purchase of Processing Services from Shenzhen HEC Industrial Group for FY2022 (i.e. RMB103,066,200) represented a significant increase as compared to the historical transaction amounts of RMB52,628,780 for FY2021. 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 the continuous supply of pharmaceutical products according to the winning bid of centralized procurement and newly launched pharmaceutical products in FY2022.

Upon our request, we obtained a list from the Company showing the Company's estimated volume of different pharmaceutical products together with entrusted processing costs for FY2022.

### *The Centralized Procurement Pharmaceutical Products*

According to the list, (i) there were seven types of pharmaceutical products which won bid of centralized procurement 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) in 2020 and 2021; and (ii) the estimated entrusted processing amounts for the aforesaid seven types of pharmaceutical products accounted for approximately 66% to the total estimated amounts of entrusted processing services for FY2022 under the Entrusted Processing Framework Agreement (i.e. RMB103,066,200)).

For our due diligence purpose, we searched for the seven types of pharmaceutical products and noted that such products won bid of centralized procurement in January 2020, August 2020, February 2021 and June 2021. The aforesaid seven types of pharmaceutical products (the “**Centralized Procurement 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), Duloxetine Hydrochloride Enteric-coated Capsules (鹽酸度洛西汀腸溶膠囊), Aripiprazole Tablets (阿立哌唑片) and Rivaroxaban tablets (利伐沙班片).

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 actual average monthly supplied quantity of the Centralized Procurement Pharmaceutical Products for FY2021 to the average target monthly supplied quantity of the Centralized Procurement Pharmaceutical Products according to the centralised procurement requirements; and (iii) the actual average monthly supplied quantity of the Centralized Procurement Pharmaceutical Products for FY2021.

We further noted that the estimated average monthly supplied quantity of the Centralized Procurement Pharmaceutical Products for FY2022 represented approximately 68% to 216% to the actual average monthly supplied quantity of the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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Centralized Procurement Pharmaceutical Products for FY2021. The percentage range did not exceed the percentage range of the actual average monthly supplied quantity of the Centralized Procurement Pharmaceutical Products for FY2021 to the average target monthly supplied quantity of the Centralized Procurement Pharmaceutical Products of approximately 143% to 900%. Having considered that the actual supplied amount is obviously more than the target supplied amount of relevant pharmaceutical products according to the centralized procurement, we are of the view that the estimated average monthly supplied quantity of the Centralized Procurement Pharmaceutical Products for FY2022 to be justifiable.

The estimated entrusted processing amounts for Centralized Procurement Pharmaceutical Products for FY2022 were calculated by the estimated volume times their respective cost.

### *The new pharmaceutical products*

The estimated entrusted processing amount for new pharmaceutical products (i.e. newly approved pharmaceutical products or products expected to be launched) accounted for approximately 34% to the total estimated amounts of entrusted processing services for FY2022 under the Entrusted Processing Framework Agreement. 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 for FY2022 was determined based on, among other things, the sales target of the new pharmaceutical products made by the Company's sales team. According to the list, we noted that the estimated entrusted processing amounts for newly approved pharmaceutical products or products expected to be launched was calculated by the estimated volume times their respective cost. Upon our further request, the Directors provided market size of relevant pharmaceutical products sold by other market participants in 2021 and we noted that the estimated volume for such relevant pharmaceutical products for FY2022 were much less than the market size of such pharmaceutical products in 2021, which indicated that the estimated volume for such relevant pharmaceutical products were not overestimated according to the market size in FY2021. Accordingly, we consider the estimated volume of the newly approved pharmaceutical products or products expected to be launched for FY2022 to be reasonable.

Upon our further enquiry, the Directors advised that the cost of the new pharmaceutical products were made with reference to the quotations for the entrusted processing services for the new pharmaceutical products as provided by Shenzhen HEC Industrial Group, which were further assessed by the Group. We obtained the quotations and the assessment results made by the Group. We noted that there is no substantial difference between the quotations and the assessment results made by the Group in general.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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Based on the above factors, we consider the estimated amounts of entrusted processing services for FY2022 to be reasonable. Accordingly, we consider the proposed annual cap for FY2022 to be fair and reasonable.

Despite that the historical transactions amounts for the purchase of entrusted processing services from Shenzhen HEC Industrial Group for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for FY2022, the historical amounts for the purchase of entrusted processing services from Shenzhen HEC Industrial Group for the first four months of 2021 also accounted for less than 1% of its actual amounts for FY2021 based on the information provided by the Company.

Shareholders should note that as the proposed annual cap is relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and it does not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Processing Services. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Processing Services will correspond with the proposed annual cap.

### ***F. Leasing and Other Services Framework Agreement***

Date:	27 April 2022
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and  (ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term:	From 27 April 2022 to 31 December 2022
Nature of transaction:	Shenzhen HEC Industrial will provide office buildings, warehouse, inspection and testing service, conference accommodation and other services (“ <b>Leasing and Conference Services</b> ”) to the Group.
Payment method:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
Pricing policy:	The rental of leasing of office buildings and warehouse charged by Shenzhen HEC Industrial to the Group is determined after arm’s length negotiations by reference to the current rent for the same type of property in the vicinity at the time of entering into the Leasing and Other Services Framework Agreement.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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The fee for inspection and testing service charged by Shenzhen HEC Industrial to the Group adopts a “cost-plus” mechanism in which a range of 10–15% of the profit is charged.

We also noted that the Group will provide inspection and testing service to Shenzhen HEC Industrial pursuant to the Entrusted Production and Inspection Services Framework Agreement with inspection services fee based on “cost-plus” mechanism where a profit ranging from 10% to 15%. As advised by the Directors, the scope of work for inspection and testing service provided by Shenzhen HEC Industrial Group are comparable to the scope of inspection and testing services pursuant to the Entrusted Production and Inspection Services Framework Agreement according to the following reasons (i) the scope of both services included the provision of inspection and testing services for pharmaceutical products or intermediates of generic drugs; and (ii) the procedures of both services were (a) to obtain request from client; (b) to assess the feasibility and provide quotation; (c) to sign contract; (d) to obtain relevant materials from client; (e) to commence inspection and testing services and issue final report. However, as the inspection and testing services for different targets may involve different equipment and different material, the equipments owned by the Group or Shenzhen HEC Industrial Group may not be able to cover all inspection and testing procedures by using their own equipments. Therefore, the inspection and testing service may be needed by both the Group and Shenzhen HEC Industrial Group from the counterparties. In addition, relevant costs for (a) the inspection and testing service to be provided by the Group to Shenzhen HEC Industrial Group; and (b) the inspection and testing service to be provided by Shenzhen HEC Industrial Group to the Group will be considered and included in the pricing.

As (i) the scope of work for inspection and testing service provided by Shenzhen HEC Industrial are comparable to the scope of inspection and testing services pursuant to the Entrusted Production and Inspection Services Framework Agreement; and (ii) the inspection and testing service charged by Shenzhen HEC Industrial to the Group are the same as those charged by the Group to Shenzhen HEC Industrial Group, we consider the pricing policy for inspection and testing service are fair and reasonable.

The fee for conference accommodation service charged by Shenzhen HEC Industrial to the Group is determined with reference to the actual consumption volume and the price of settlement published by Yichang Shancheng Shuidu Hotel Co., Ltd\* (宜昌山城水都大飯店有限公司), a subsidiary of Shenzhen HEC Industrial, based on the unified external settlement price list published by the hotel with the most preferential discount, and are settled based on the actual consumption volume.

As advised by the Directors, Yichang Shancheng Shuidu Hotel Co., Ltd\* (宜昌山城水都大飯店有限公司) is located in Yidu City with gross floor area of 41,987.54 square meters. The hotel had a conference room with gross floor area of approximately 887.52 square meters, which can accommodate approximately 300 participants for conference meeting purpose. The occupancy rate of the hotel for the year ended 31 December 2019 (being the year before the outbreak of COVID-19 in the PRC) was nearly 50%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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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 (i) procurement department, together with relevant departments such as 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 inspection and testing service contemplated under the Leasing and Other Services Framework Agreement to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. 10% — 15% of the profit); (ii) procurement department, together with relevant departments such as finance department will confirm the price as shown in settlement price list published by the Yichang Shancheng Shuidu Hotel Co., Ltd\* (宜昌山城水都大飯店有限公司); and (iii) there will be price collection and comparison procedures (As advised by the Directors, the Group will collect at least two current rents from website (which provide rental information) or property agencies) before the entering into of rental of leasing of office buildings and warehouse with Shenzhen HEC Industrial Group to ensure the rental price will be determined in accordance with their market prices and be no less favourable than those offered by independent third party suppliers under same type of property, we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Leasing and Other Services Framework Agreement.

As (i) the internal control measures for (a) leasing of office buildings and warehouse; and (b) conference accommodation service were more detailed and specific as compared to the previous internal control measures for such services; and (ii) there was no inspection and testing services providing by connected persons for FY2021, we consider it is not applicable for us to assess the effectiveness of the implementation of the internal control measures for governing fair pricing for the aforesaid services by reference to the implementation status of previous internal control measures. To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the Leasing and Other Services Framework Agreement, we discussed with staff of the procurement department and finance department of relevant subsidiaries and management of the Company. We noted that such staff are aware of the internal control measures and will comply with the internal control measures when conducting the transactions contemplated under the Leasing and Other Services Framework Agreement. Upon our request, we obtained the internal control document. After reviewing the document, we acknowledged that the contents of internal control document included the abovementioned procedures. In addition, the Company also provided us supporting document, showing that the senior management staff of the Company provided the internal control document to all relevant departments and required such departments to strictly follow the internal control measures as contained in the document. Therefore, we do not doubt the effectiveness of implementation of the internal control measures for fair pricing of the transactions contemplated under the Leasing and Other Services Framework Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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*The proposed annual caps under the Leasing and Other Services Framework Agreement*

The table below demonstrates (i) the historical transactions amounts for transactions contemplated under the Leasing and Other Services Framework Agreement for each of the three years ended 31 December 2021, for the period from 1 January 2022 to 27 April 2022 and for the six months ended 30 June 2022 as extracted from the Board Letter; and (ii) the proposed annual cap for FY2022:

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2021 RMB'000	For the period from 1 January 2022 to 27 April 2022 RMB'000	For the six months ended 30 June 2022 RMB'000
Historical transaction amounts for leasing and other services from Shenzhen HEC Industrial Group	3,690	7,500	7,179.28	24.70	3,559
Previous/Existing annual caps	4,200	80,000	9,826.10	N/A	N/A
Utilisation rate	87.86%	9.38%	73.06%	N/A	N/A
					<b>For the year ending 31 December 2022 RMB'000</b>
Proposed annual cap for leasing and other services from Shenzhen HEC Industrial Group					27,000.00

We understood that the Directors considered factors set out under the sub-section headed “Proposed annual cap and determination basis” under the section headed “Leasing and Other Services Framework Agreement” of the Board Letter when determining the proposed annual cap for the transactions contemplated under the Leasing and Other Services Framework Agreement for FY2022.

According to the above table, the estimated amounts (i.e. proposed annual cap) for leasing and other services from Shenzhen HEC Industrial Group for FY2022 (i.e. RMB27,000,000 in aggregate) represented a significant increase of approximately three times (or approximately RMB19.8 million) as compared to the historical transaction amounts for FY2021. As confirmed by the Directors and according to the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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breakdown of the proposed annual cap for the year ending 31 December 2022, the aforesaid increase was mainly due to the estimated demand of relevant services for (i) conference accommodation; and (ii) inspection and testing service.

With reference to the Board Letter, coupled with the impact of the pandemic prevention and control policies, the Group basically suspended the academic promotion meetings and marketing activities for the lease of Shenzhen HEC Industrial Group hotels, and the accommodation, catering and other services with Shenzhen HEC Industrial Group were cancelled accordingly.

The Directors estimated to record approximately RMB11.0 million as the demand of relevant services for conference accommodation for FY2022 (FY2021: less than RMB1 million). To assess the fairness and reasonableness of the estimated demand of relevant services for conference accommodation for FY2022, we enquired the Directors in respect of numbers of conference expected to hold in FY2022 with estimated cost for each conference. The Directors provided us (i) a conference schedule for FY2022; and (ii) historical cost of conference services for each type. We noted that there will be four types (classified by size) of conferences holding in FY2022 with total number of approximately 70 conferences (the number of conferences was substantially lower than those hosted in 2019 (being the year before the outbreak of COVID-19 in the PRC) and the estimated cost for each type of conference (ranging from RMB0.10 million to RMB0.60 million) is close to the historical cost of such type conference services (ranging from approximately RMB0.10 million to RMB0.57 million)).

In respect of inspection and testing service, we noted from the 2021 Annual Report that the Group did not record any inspection and testing service with connected persons. The estimated demand of inspection and testing service for FY2022 of approximately RMB9 million was therefore downward adjusted as compared to the estimated demand of such services for FY2021.

Upon our request, we obtained the estimated cost for the inspection and testing services from the Company, which comprised (i) estimated cost for the inspection and testing services of RMB6 million (for our due diligence purpose, we obtained all relevant assumptions for the inspection and testing services, including per unit cost, quantity in inspection and testing service, target pharmaceutical products, type of services); and (ii) estimated cost for safety assessment of RMB3 million (for our due diligence purpose, we obtained information of the Group's pharmaceutical products which required the safety assessment, number of process to be provided for each products, and quotation of the safety assessment provided by the Shenzhen HEC Industrial Group).

In respect of the remaining estimated amounts of approximately RMB7.1 million for FY2022, we noted that such amounts were generally in line with the historical amounts of the remaining services (i.e. rent and other services) of

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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approximately RMB6.6 million for FY2021. Accordingly, we consider the remaining estimated amounts pursuant to the Leasing and Other Services Framework Agreement to be reasonable.

Based on the above factors, we consider the estimated demand of relevant services for (i) conference accommodation; and (ii) inspection and testing service for FY2022, and their respective increases as compared to those for FY2021 to be reasonable. As the estimated demand of the aforesaid two type of services are the major factor causing the increase in estimated demand of Leasing and Conference Services for FY2022 (as compared to FY2021) and the remaining estimated amounts pursuant to the Leasing and Other Services Framework Agreement to be reasonable as analysed above, we consider the proposed annual cap for FY2022 to be fair and reasonable.

Despite that the historical transactions amounts for transactions contemplated under the Leasing and Other Services Framework Agreement for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for FY2022, the historical amounts for such transactions from Shenzhen HEC Industrial Group for the first four months of 2021 also accounted for less than 1% of its actual amount for FY2021 based on the information provided by the Company.

Shareholders should note that as the proposed annual cap is relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and it does not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Leasing and Other Services Framework Agreement. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Leasing and Other Services Framework Agreement will correspond with the proposed annual cap.

### ***G. APIs and Pharmaceutical Products Sales Framework Agreement***

Date: 27 April 2022

Parties: (i) the Company (for itself and on behalf of its subsidiaries); and  
(ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)

Term: From 27 April 2022 to 31 December 2022

Nature of transaction: The Company agreed to sell APIs such as Esomeprazole, Magnesium, Oseltamivir Phosphate, Olanzapine, Entacapone, Febuxostat and chemical pharmaceutical products to Shenzhen HEC Industrial.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- Payment method: Shenzhen HEC Industrial will pay the corresponding amount to the Company (via telegraphic transfer) within 90 days upon receipt of the invoice issued by the Company.
- Pricing policy: As the Company also sells pharmaceutical products and APIs to independent third parties, the fees to be charged by the Group to Shenzhen HEC Industrial Group shall not be lower than the price charged to any independent third parties. The price charged shall be at prevailing market price based on the standard price list of the Group for its products applicable to all customers (which was determined by the business planning executives on a fixed percentage of margins over costs and taking into account of the selling price of competitors), being the selling price of similar products sold by the Group to independent third parties on normal commercial terms in the ordinary course of business in the PRC in China recently.

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 comparison procedures (at least two similar transactions) before the entering into of transactions contemplated under the APIs and Pharmaceutical Products Sales Framework Agreement to ensure the sales prices of APIs or pharmaceutical products will be determined in accordance with their market prices and be no more favourable than those offered to independent third party 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 APIs and Pharmaceutical Products Sales Framework Agreement.

As the internal control measures for transactions contemplated under the APIs and Pharmaceutical Products Sales Framework Agreement were more detailed and specific as compared to the previous internal control measures for such services, we consider it is not applicable for us to assess the effectiveness of the implementation of the internal control measures for governing fair pricing for the aforesaid services by reference to the implementation status of previous internal control measures. To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the APIs and Pharmaceutical Products Sales Framework Agreement, we discussed with staff of the sales department of relevant subsidiaries and management of the Company. We noted that such staff are aware of the internal control measures and will comply with the internal control measures when conducting the transactions contemplated under the APIs and Pharmaceutical Products Sales Framework Agreement. Upon our request, we obtained the internal control document. After reviewing



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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the document, we acknowledged that the contents of internal control document included the abovementioned procedures. In addition, the Company also provided us supporting document, showing that the senior management staff of the Company provided the internal control document to all relevant departments and required such departments to strictly follow the internal control measures as contained in the document. Therefore, we do not doubt the effectiveness of implementation of the internal control measures for fair pricing of the transactions contemplated under the APIs and Pharmaceutical Products Sales Framework Agreement.

In addition, we also noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold.

*The proposed annual cap under the APIs and Pharmaceutical Products Sales Framework Agreement*

The table below demonstrates (i) the historical transactions amounts for transactions contemplated under the APIs and Pharmaceutical Products Sales Framework Agreement for each of the three years ended 31 December 2021, for the period from 1 January 2022 to 27 April 2022 and for the six months ended 30 June 2022 as extracted from the Board Letter; and (ii) the proposed annual cap for FY2022:

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2021 RMB'000	For the period from 1 January 2022 to 27 April 2022 RMB'000	For the six months ended 30 June 2022 RMB'000
Historical transaction amounts for APIs and Pharmaceutical Products Sales Framework Agreement between the Group and Shenzhen HEC Industrial Group	2,610	4,193	5,450.43	—	4,427
Previous/Existing annual caps	10,000	8,500	34,580	N/A	N/A
Utilisation rate	26.10%	49.33%	15.76%	N/A	N/A



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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For the  
year ending  
31 December  
2022  
RMB'000

Proposed annual cap for APIs and Pharmaceutical Products Sales Framework Agreement between the Group and Shenzhen HEC Industrial Group	15,012.00
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We understood that the Directors considered factors set out under the sub-section headed “Proposed annual cap and determination basis” under the section headed “7. APIs and Pharmaceutical Products Sales Framework Agreement” of the Board Letter when determining the proposed annual cap for the transactions contemplated under the APIs and Pharmaceutical Products Sales Framework Agreement for FY2022.

According to the above table, the estimated amounts (i.e. proposed annual cap) of APIs and pharmaceutical products to be supplied by the Group to Shenzhen HEC Industrial Group for FY2022 (i.e. RMB15,012,000 in aggregate) represented a significant increase of approximately 175% as compared to the historical transaction amounts for FY2021, which was mainly attributable to the estimated increase in demand of (i) Esomeprazole Magnesium APIs (for the purpose of producing Esomeprazole Magnesium Enteric-coated Capsules (艾司奧美拉唑鎂腸溶膠囊)); (ii) Olanzapine Tablets (奧氮平片) and Olanzapine APIs (for the purpose of producing Olanzapine Orally Disintegrating Tablets (奧氮平口崩片)); and (iii) Oseltamivir Phosphate APIs, by Shenzhen HEC Industrial Group. According to the data from the website of National Medical Products Administration, the Sunshine Lake Pharma are the production units of Esomeprazole Magnesium Enteric-coated Capsules (艾司奧美拉唑鎂腸溶膠囊) and Olanzapine Orally Disintegrating Tablets (奧氮平口崩片); and both the Company and Sunshine Lake Pharma are the production units of Olanzapine Tablets (奧氮平片). The estimated amounts of the aforesaid APIs and pharmaceutical products accounted for over 75% to the total estimated amounts for FY2022.

In respect of estimated amounts for Esomeprazole Magnesium APIs, and Olanzapine APIs and Olanzapine Orally Disintegrating Tablets (奧氮平口崩片), we noted that (i) Esomeprazole Magnesium Enteric-coated Capsules (艾司奧美拉唑鎂腸溶膠囊) (being the pharmaceutical products produced by, among other things, Esomeprazole Magnesium APIs) and Olanzapine Orally Disintegrating Tablets (奧氮平口崩片) have won the tender for Fourth National Centralized Procurement of Pharmaceuticals (第四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) in 2020 and 2021 respectively; and (ii) Olanzapine Tablets (奧氮平片) have won the tender for the centralized procurement organized by Guangdong Medicine Exchange (廣東省藥品交易中心) in 2021. As mentioned above, the actual supplied amount is obviously

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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more than the estimated supplied amount of relevant pharmaceutical products according to the centralized procurement. The percentage of the actual average monthly supplied quantity of the Centralized Procurement Pharmaceutical Products (i.e. pharmaceutical products to be supplied under the centralized procurement) for FY2021 to the average monthly target supplied quantity of the Centralized Procurement Pharmaceutical Products ranged from approximately 143% to 900% (the average of the aforesaid range was approximately 365%). Therefore, we consider the estimated amounts for Esomeprazole Magnesium APIs, and Olanzapine APIs and Olanzapine Tablets (奥氮平片) for FY2022 to be justifiable.

In addition, as advised by the Directors, the Oseltamivir Phosphate APIs will be used by Shenzhen HEC Industrial Group for the research and development new pharmaceutical products purpose and such estimated amounts was made with reference to the anticipated demand of such APIs by Shenzhen HEC Industrial Group for FY2022 (i.e. with estimated amounts of RMB1,500,000). We understood that the Group has sufficient capacity for producing the Oseltamivir Phosphate APIs and therefore, we consider it is acceptable to estimated amounts of Oseltamivir Phosphate APIs for FY2022 based on Shenzhen HEC Industrial Group's estimation.

Although the Group did not record any transactions contemplated under the APIs and Pharmaceutical Products Sales Framework Agreement for the period from 1 January 2022 to 27 April 2022, the historical amounts for such transactions from Shenzhen HEC Industrial Group for the first four months of 2021 accounted for less than 1% of its actual amount for FY2021 based on the information provided by the Company.

Based on the above factors, we consider the significant increase in the estimated amounts of APIs and pharmaceutical products to be supplied by the Group to Shenzhen HEC Industrial Group for FY2022 as compared to the historical amounts for FY2021 to be justifiable and therefore we also consider the proposed annual cap for FY2022 to be fair and reasonable.

Shareholders should note that as the proposed annual cap is relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and it does not represent forecasts of revenue/expenses/costs to be recorded/incurred from the APIs and Pharmaceutical Products Sales Framework Agreement. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the APIs and Pharmaceutical Products Sales Framework Agreement will correspond with the proposed annual cap.

### ***H. The Entrusted Production and Inspection Services Framework Agreement***

Date: 27 April 2022

Parties: (i) the Company (for itself and on behalf of its subsidiaries); and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- (ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)

Term:	From 27 April 2022 to 31 December 2022
Nature of transaction:	The Company agreed to provide production and inspection services to Shenzhen HEC Industrial. The scope of the entrusted production and inspection services includes provision of production, inspection and testing services to Dong An Tai, Dong An Qiang, Peramivir, Galantamine, Baloxavir, Paliperidone Palmitate, other generic drugs, other new drugs, insulin degludec APIs and injection, insulin degludec/insulin aspart, insulin degludec/liraglutide injection and intermediates of generic drugs.
Payment method:	Shenzhen HEC Industrial will pay the corresponding amount to the Company (via telegraphic transfer) within 90 days upon receipt of the invoice issued by the Company.
Pricing policy:	The fee of production services charged by the Group will be made with reference to the actual production price, while a “cost-plus” mechanism is adopted by the Group for charging an inspection services fee to Shenzhen HEC Industrial, i.e. the Group will charge a profit ranging from 10% to 15%.

As advised by the Directors, the profit ranging was determined after arm’s length negotiation between the Company and Shenzhen HEC Industrial with reference to, among other things (i) the end-use of the products pursuant to the Entrusted Production and Inspection Services Framework Agreement; (ii) the Group’s profitability from the sale of pharmaceutical products (i.e. average gross profit was approximately 21.1%); (iii) the Directors’ and managements’ knowledge that a higher gross profit margin will be for the downstream industry as compared to upstream industry; and (iv) the profit range contemplated under the fee charged by Shenzhen HEC Industrial for the provision of inspection and testing service (i.e. 10% to 15%).

We also noted that (i) the Group will accept inspection and testing service to be provided by Shenzhen HEC Industrial pursuant to the Leasing and Other Services Framework Agreement with inspection services fee based on “cost-plus” mechanism where a profit ranging from 10% to 15%; and (ii) the Group will accept pharmaceutical processing services for its certain pharmaceutical products with processing services fees based on “cost-plus” mechanism where an additional fee within approximately 10%–20% of the processing fee.

As the inspection and testing service charged by Shenzhen HEC Industrial to the Group are at the similar level as those charged by the Group to Shenzhen HEC Industrial Group (as mentioned in the section headed “F. Leasing and Other Services Framework

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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Agreement” above, the scope of work for inspection and testing service provided by Shenzhen HEC Industrial are comparable to the scope of inspection and testing services pursuant to the Entrusted Production and Inspection Services Framework Agreement), we consider the pricing policy for inspection and testing services contemplated under the Entrusted Production and Inspection Services Framework Agreement are fair and reasonable.

In addition, we understood that products under the Entrusted Production and Inspection Services Framework Agreement are categorised as intermediates of generic drugs, which are the material to produce APIs, and being the upstream industry to the production of pharmaceutical products (as APIs will be materials to produce pharmaceutical products). Having considered that (i) the Group will accept pharmaceutical processing services for its certain pharmaceutical products with processing services fees based on “cost-plus” mechanism where an additional fee within approximately 10%-20% of the processing fee; and (ii) as mentioned above, a higher gross profit margin will be for the downstream industry as compared to upstream industry, we consider the pricing policy for entrusted production services to be fair and reasonable.

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 production department, together with relevant departments such as finance department will analyse the cost of relevant services before entering into of the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. within approximately 10% to 15% of the processing fee), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under Entrusted Production and Inspection Services Framework Agreement.

As the internal control measures for transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement were more detailed and specific as compared to the previous internal control measures for such services, we consider it is not applicable for us to assess the effectiveness of the implementation of the internal control measures for governing fair pricing for the aforesaid services by reference to the implementation status of previous internal control measures. To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement, we discussed with staff of the production department and finance department of relevant subsidiaries and management of the Company. We noted that such staff are aware of the internal control measures and will comply with the internal control measures when conducting the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement. Upon our request, we obtained the internal control document. After reviewing the document, we acknowledged that the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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contents of internal control document included the abovementioned procedures. In addition, the Company also provided us supporting document, showing that the senior management staff of the Company provided the internal control document to all relevant departments and required such departments to strictly follow the internal control measures as contained in the document. Therefore, we do not doubt the effectiveness of implementation of the internal control measures for fair pricing of the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement.

In addition, we also noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold.

*The proposed annual cap under the Entrusted Production and Inspection Services Framework Agreement*

The table below demonstrates (i) the historical transactions amounts for transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement for each of the three years ended 31 December 2021, for the period from 1 January 2022 to 27 April 2022 and for the six months ended 30 June 2022 as extracted from the Board Letter; and (ii) the proposed annual cap for FY2022:

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2021 RMB'000	For the period from 1 January 2022 to 27 April 2022 RMB'000	For the six months ended 30 June 2022 RMB'000
Historical transaction amounts for the provision of Production and Inspection Services to Shenzhen HEC Industrial Group	—	—	4,971.01	18.60	172.90
Previous/Existing annual caps	—	—	74,296.26	N/A	N/A
Utilisation rate	—	—	6.69%	N/A	N/A

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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For the  
year ending  
31 December  
2022  
RMB'000

Proposed annual cap for the provision of Production and Inspection Services to Shenzhen HEC Industrial Group	59,000.00
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We understood that the Directors considered factors set out under the sub-section headed “Proposed annual cap and determination basis” under the section headed “8. Entrusted Production and Inspection Services Framework Agreement” of the Board Letter when determining the proposed annual cap for the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement for FY2022.

Upon our request, we obtained a detailed breakdown of the proposed annual cap for FY2022. We noted that the estimated amounts for the provision of production services to (i) Dong An Tai; and (ii) Dong An Qiang accounted for approximately 85.7% to the proposed annual cap for FY2022. As advised by the Directors, the aforesaid estimated amounts were calculated based on the Group’s possible production cost for such products with a profit of 15%.

Upon our further request, we obtained the estimated production cost for the production for Dong An Tai and Dong An Qiang for FY2022. We noted that the production cost included material cost (which will exclude from material provided by Shenzhen HEC Industrial Group), fixed cost (including labour cost, depreciation on equipment) and variable cost (including utilities cost). The production cost for Dong An Tai and Dong An Qiang (with required quantity) for FY2022 was approximately RMB44 million.

According to the aforesaid breakdown, the estimated amounts for the provision of production services for Dong An Tai and Dong An Qiang for FY2022 was RMB44 million with an 15% margin, being approximately RMB51 million.

As (i) the estimated amounts of the estimated amounts for the provision of production services to Dong An Tai and Dong An Qiang for FY2022 accounted for the majority part of the proposed annual cap for FY2022; (ii) save for Dong An Tai and Dong An Qiang, the Group could also provide production, inspection and testing services for other pharmaceutical products and we obtained the list of such products together with relevant estimated amounts; and (iii) the Group’s additional production workshops will be put into production in FY2022, through which the Group is capable to provide more relevant services as compared to FY2021, we are of the view that the proposed annual cap for FY2022 to be fair and reasonable.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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The historical transactions amounts for transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement for the period from 1 January 2022 to 27 April 2022 accounted for less than 1% of the proposed annual cap for FY2022. Based on the information provided by the Company, the Group did not record any transaction amounts for such transactions from Shenzhen HEC Industrial Group for the first four months of 2021.

Shareholders should note that as the proposed annual cap is relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and it does not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Entrusted Production and Inspection Services Framework Agreement. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement will correspond with the proposed annual cap.

#### **4. Remedial actions**

With reference to the Board Letter, the Group has from time to time conducted certain procurement, entrust processing, sales and leasing transactions with Shenzhen HEC Industrial Group since its listing. In response to the renewal of the Continuing Connected Transactions between the Group and Shenzhen HEC Industrial Group for the year ended 31 December 2022, the Company has been preparing relevant disclosures under Chapter 14A of the Listing Rules. During the process of finalizing certain information to the Circular by the Company in relation to the Continuing Connected Transactions, the amount of transactions conducted between the Group and Shenzhen HEC Industrial Group, on an aggregate basis, have exceeded the corresponding threshold and therefore failed to comply with the requirements of the relevant provisions of Chapter 14A of the Listing Rules.

With reference to the Board Letter, upon identifying the non-compliance incidents, the Company immediately acknowledged that rectifying and preventing further non-compliance was of utmost priority. Accordingly, certain remedial actions have been formulated and will be taken by the Company to mitigate and remedy such non-compliance incidents.

Taking into account the following factors:

- (i) there will be additional training for the management and staff of the Group on the compliance obligations under Chapter 14A of the Listing Rules;
- (ii) the Company will seek legal advice and guidance from external legal advisers;
- (iii) training will be organized twice a year and compliance guidance and materials will be circulated to staff responsible for handling connected transactions on a regular basis so as to remind and refresh their knowledge and understanding on the requirements of Listing Rules, especially the rules on connected transactions; and



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- (iv) the Company is proposed to ensure that better coordination and reporting arrangements of connected transactions will be carried out among various departments of the Company responsible for reporting, monitoring and handling connected transactions,

we consider that the proposed implementation of the measures (including internal control measures) would help to ensure that the transactions are conducted in accordance with relevant requirements.

### **5. 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 (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 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 and thus the interest of the Independent Shareholders would be safeguarded.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Continuing Connected Transactions are fair and reasonable and on normal commercial terms; and (ii) the Continuing Connected 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 resolutions to be proposed at the EGM to approve the Continuing Connected 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 Xinfu	H Shares	Beneficial owner	130,400 (L)	0.019%	0.015%
CHEN Yangui	H Shares	Beneficial owner	66,400 (L)	0.010%	0.007%
LI Shuang	H Shares	Beneficial owner	66,800 (L)	0.010%	0.007%
WANG Danjin	H Shares	Beneficial owner	67,200 (L)	0.010%	0.007%
JIANG Juncai	H Shares	Beneficial owner	66,800 (L)	0.010%	0.007%
LI Xuechen	H Shares	Beneficial owner	4,000 (L)	0.00061%	0.00045%
<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.	H Shares	Beneficial owner	21,815,200 (L)	—	3.33% (L)	2.47% (L)
Shenzhen HEC Industrial Development Co., Ltd.* <sup>2</sup>	Domestic Shares	Interest in controlled corporation	226,200,000 (L)	—	100.00% (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)	—	100.00% (L)	25.70% (L)
	H Shares	Interest in controlled corporation	248,015,200 (L)	—	37.93% (L)	28.18% (L)
Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. <sup>2</sup>	Domestic Shares	Interest in controlled corporation	226,200,000 (L)	—	100.00% (L)	25.70% (L)
	H Shares	Interest in controlled corporation	248,015,200 (L)	—	37.93% (L)	28.18% (L)
Sunshine Lake Pharma Co., Ltd.	Domestic Shares	Beneficial owner	226,200,000 (L)	—	100.00% (L)	25.70% (L)
	H Shares	Interest in controlled corporation	226,200,000 (L)	—	34.59% (L)	25.70% (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 (%)
HEC (Hong Kong) Sales Co., Limited	H Shares	Beneficial owner	226,200,000 (L)	—	34.59% (L)	25.70% (L)
Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. <sup>2</sup>	Domestic Shares	Interest in controlled corporation	226,200,000 (L)	—	100.00% (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)	—	100.00% (L)	25.70% (L)
	H Shares	Interest in controlled corporation	248,015,200 (L)	—	37.93% (L)	28.18% (L)
Mr. Zhang Yushuai <sup>4</sup>	Domestic Shares	Interest in controlled corporation	226,200,000 (L)	—	100.00% (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)	—	100.00% (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	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)
Stephen A. Schwarzman <sup>7</sup>	H Shares	Interest in controlled corporation	—	165,263,156 (L)	25.27% (L)	18.78% (L)
				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)
				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)
				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 42.00% 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 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. The interests of Mr. Zhang Zhongneng have been inherited by Mr. Zhang Yushuai, the son of Mr. Zhang Zhongneng.
- 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.

<b>Name</b>	<b>Positions in the Company</b>	<b>Other interests</b>
Mr. TANG Xinfu	Chairman and non-executive Director of the Company	Director and general manager of Shenzhen HEC Industrial; and Director of Sunshine Lake Pharma.

### **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 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 between the Group and Shenzhen HEC Industrial.

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 2021 (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 EXPERT AND CONSENTS

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

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

As of the Latest Practicable Date, the expert 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 2021 (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 2021, being the date to which the latest published audited financial statements of the Company have been made up.

**10. GENERAL**

- (a) The joint company secretaries of the Company are Mr. PENG Qiyun (彭琪雲) and Mr. WONG Wai Chiu (黃偉超). Mr. Wong is an assistant director of SWCS Corporate Services Group (Hong Kong) Limited and a fellow of the Hong Kong Chartered Governance Institute (formerly known as Hong Kong Institute of Chartered Secretaries), a fellow of the Chartered Governance Institute in the United Kingdom, a member of CPA Australia, a member of the Hong Kong Trustee Association and a Certified Trust Practitioner.
- (b) The registered office of the Company is No. 38 Binjiang Road, Yidu, Yichang, Hubei Province, the PRC.
- (c) The headquarters 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.

**11. DOCUMENTS ON DISPLAY**

A copy of each of the following documents will be published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website (<http://www.hec-changjiang.com/>) for a period of 14 days from the date of this circular:

- (a) Energy Purchase Framework Agreement;
- (b) APIs Purchase Agreement;
- (c) Packaging and Production Materials Purchase Framework Agreement;
- (d) Equipment Purchase and Civil Construction Framework Agreement;
- (e) Entrusted Processing Framework Agreement;

- (f) Leasing and Other Services Framework Agreement;
- (g) APIs and Pharmaceutical Products Sales Framework Agreement;
- (h) Entrusted Production and Inspection Services Framework Agreement;
- (i) the letter from the Board dated 2 August 2022, the text of which is set out on pages 6 to 46 of this circular;
- (j) the letter of recommendation from the Independent Board Committee dated 2 August 2022, the text of which is set out on pages 47 to 48 of this circular;
- (k) the letter of advice from Gram Capital Limited dated 2 August 2022, the text of which is set out on pages 49 to 96 of this circular;
- (l) the written consent of Gram Capital Limited, which was referred to in the section headed “Qualification of Expert and Consents” in this appendix; and
- (m) this circular.



**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)**

## **NOTICE OF 2022 FIRST EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the 2022 first extraordinary general meeting (the “EGM”) of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the “**Company**”) 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 Monday, 22 August 2022 to consider and, if thought fit, approve the following resolutions. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 2 August 2022 (the “**Circular**”).

### **ORDINARY RESOLUTIONS**

1. **THAT** (a) the execution of the Energy Purchase Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Energy Purchase Framework Agreement and the proposed annual cap for the year ending 31 December 2022 as set out in the Circular be and are hereby approved.
2. **THAT** (a) the execution of the APIs Purchase Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the APIs Purchase Agreement and the proposed annual cap for the year ending 31 December 2022 as set out in the Circular be and are hereby approved.
3. **THAT** (a) the execution of the Packaging and Production Materials Purchase Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement and the proposed annual cap for the year ending 31 December 2022 as set out in the Circular be and are hereby approved.

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## NOTICE OF 2022 FIRST EXTRAORDINARY GENERAL MEETING

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4. **THAT** (a) the execution of the Equipment Purchase and Civil Construction Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement and the proposed annual cap for the year ending 31 December 2022 as set out in the Circular be and are hereby approved.
5. **THAT** (a) the execution of the Entrusted Processing Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Entrusted Processing Framework Agreement and the proposed annual cap for the year ending 31 December 2022 as set out in the Circular be and are hereby approved.
6. **THAT** (a) the execution of the Leasing and Other Services Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Leasing and Other Services Framework Agreement and the proposed annual cap for the year ending 31 December 2022 as set out in the Circular be and are hereby approved.
7. **THAT** (a) the execution of the APIs and Pharmaceutical Products Sales Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the APIs and Pharmaceutical Products Sales Framework Agreement and the proposed annual cap for the year ending 31 December 2022 as set out in the Circular be and are hereby approved.
8. **THAT** (a) the execution of the Entrusted Production and Inspection Services Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement and the proposed annual cap for the year ending 31 December 2022 as set out in the Circular be and are hereby approved.

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

Hubei, the PRC  
2 August 2022

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## NOTICE OF 2022 FIRST EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. In order to determine the list of Shareholders entitled to attend and vote at the EGM, the registers of members of the Company will be closed from Wednesday, 17 August 2022 to Monday, 22 August 2022, both days inclusive, during which period no transfer of shares of the Company will be effected. Shareholders whose names appear on the registers of members of the Company on Wednesday, 17 August 2022 shall be entitled to attend and vote at the EGM. In order for the Shareholders to qualify to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Board office at Securities Department, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC for holders of domestic shares of the Company, or the Company's H share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for holders of H shares of the Company by 4:30 p.m. on Tuesday, 16 August 2022 for registration.
2. Shareholders may, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the EGM (or any adjournment thereof) on their behalf. A proxy needs not be a Shareholder.
3. Shareholders must use the form of proxy of the Company for appointing a proxy and the appointment must be in writing. The form of proxy must be signed by the relevant Shareholder or by a person duly authorized by the relevant Shareholder in writing ("**power of attorney**"). If the form of proxy is signed by the person authorized by the relevant Shareholder as aforesaid, the relevant power of attorney and other relevant documents of authorization (if any) must be notarized. If a corporate Shareholder appoints a person other than its legal representative to attend the EGM (or any adjournment thereof) on its behalf, the relevant form of proxy must be affixed with the company seal of the corporate Shareholder or duly signed by its director or any other person duly authorized by that corporate Shareholder of the Company as required by the articles of association of such company.
4. To be valid, the form of proxy and the relevant notarized power of attorney (if any) and other relevant documents of authorization (if any) as mentioned in note 3 above must be delivered 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 of the Company, or the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for holders of H shares of the Company not less than 24 hours before the time appointed for the EGM (or any adjournment thereof) (i.e. before 10:00 a.m. on Sunday, 21 August 2022). Please note that 20 August 2022 and 21 August 2022 are not working days in Hong Kong and Computershare Hong Kong Investor Services Limited's offices will not be open on these days for physical delivery of the form of proxy.
5. A Shareholder or his proxy should produce proof of identity when attending the EGM (or any adjournment thereof). If a corporate Shareholder's legal representative or any other person duly authorized by such corporate Shareholder attends the EGM (or any adjournment thereof), such legal representative or other person shall produce his proof of identity, and proof of designation as a legal representative or the valid authorization document (as the case may be).
6. The EGM (or any adjournment thereof) is expected to last less than one day. Shareholders or their proxies who attend the EGM (or any adjournment thereof) shall bear their own travelling, meal and accommodation expenses.

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## NOTICE OF 2022 FIRST EXTRAORDINARY GENERAL MEETING

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7. The Company's principal place of business in the PRC is situated at:

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

Tel No.: 86-769-8176 8886

Fax No.: 86-769-8176 8866

The address of the Company's H share registrar, Computershare Hong Kong Investor Services Limited is:

Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (For lodging share transfer documents)

17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (For deposit of proxy form)

Tel No.: 852-2862-8555

Fax No.: 852-2865-0990

8. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

*As at the date of this notice, the Board consists of Mr. JIANG Juncai, Mr. WANG Danjin, Mr. CHEN Yanguai and Mr. LI Shuang as executive Directors; Mr. TANG Xinfu and Mr. Eddy HUANG as non-executive Directors; and Mr. TANG Jianxin, Mr. ZHAO Dayao, Ms. XIANG Ling and Mr. LI Xuechen as independent non-executive Directors.*