THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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HEC 东陽光药

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)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF TARGET EQUITY IN SUNSHINE LAKE PHARMA AND NOTICE OF 2023 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

A letter from the Board is set out on pages 5 to 16 of this circular. A letter from Gram Capital containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 49 of this circular and a letter from the Independent Board Committee is set out on page 17 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 Tuesday, 28 March 2023, together with the form of proxy for use at the EGM were despatched to the Shareholders on Friday, 10 March 2023. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (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 Monday, 27 March 2023) 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.

10 March 2023

CONTENTS

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

"Announcement"	the announcement of the Company dated 23 December 2022 in relation to the major and connected transaction in relation to the disposal of equity interest in Sunshine Lake Pharma
"Articles of Association"	the articles of association of the Company (as amended from time to time)
"Board"	the board of Directors of the Company
"Carea"	Carea Assets Appraisal Co., Ltd. (開元資產評估有限公司) (now known as Beijing KYSIN Assets Appraisal Co., Ltd (北京坤元至誠資產評估有限公司)), an independent valuer qualified in the PRC
"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
"Consideration"	the consideration for the Equity Transfer in the sum of RMB2,312,319,650 to be paid by Shenzhen HEC Industrial to the Company pursuant to the Equity Transfer Agreement
"Director(s)"	the director(s) of the Company
"Disposal" or "Equity Transfer"	the transfer of the Target Equity in Sunshine Lake Pharma held by the Company at a consideration of RMB2,312,319,650 to Shenzhen HEC Industrial
"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
"EGM"	the 2023 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 Tuesday, 28 March 2023
"EGM Notice"	the notice of the EGM dated 10 March 2023 convening the EGM

"Equity Transfer Agreement"	the equity transfer agreement entered into between the Company (as the transferor), Shenzhen HEC Industrial (as the transferee) and Sunshine Lake Pharma on 23 December 2022, pursuant to which, the Company agreed to transfer and Shenzhen HEC Industrial agreed to acquire the Target Equity of Sunshine Lake Pharma held by the Company
"Group"	the Company and its subsidiaries
"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
"Hong Kong dollar(s)"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Independent Board Committee"	the independent board committee (comprising Mr. TANG Jianxin, 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 Equity Transfer Agreement and the transactions contemplated thereunder
"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 SFO, being an independent financial advisor appointed by the Company to advise the Independent Board Committee and the Independent Shareholder(s) in respect of Equity Transfer Agreement and the transactions contemplated thereunder
"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 Equity Transfer Agreement and the transactions contemplated thereunder
"Latest Practicable Date"	8 March 2023, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"PRC" or "China"	the People's Republic of China and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan region
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"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 established in the PRC and a holding company of Sunshine Lake Pharma as at the Latest Practicable Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Sunshine Lake Pharma" or "Target Company"	Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司), a company established in the PRC, a controlling Shareholder of the Company and an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial
"Target Equity"	capital contribution in the amount of RMB27,720,405 (representing 9.9134% of equity interest) in Sunshine Lake Pharma held by the Company proposed to be transferred to Shenzhen HEC Industrial. In the event that there is any change in the corresponding proportion of shareholding as to the registered capital resulting from capital increase in Sunshine Lake Pharma, the Parties would unconditionally agree to such change, provided that such change shall not result in any material detriment to the interests of Shenzhen HEC Industrial), and agreed to enter into the relevant supplemental agreements (including the equity transfer agreement submitted to the market supervision and management department, if necessary) to effect the implementation of the Equity Transfer, and neither parties shall assume additional liability in connection therewith
"Valuation"	the valuation performed by Carea on the total shareholders' equity of the Target Company, the summary of which is set out in Appendix I to this circular

"%"	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).*

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 Director:
Mr. TANG Xinfa *(Chairman)*

Independent Non-executive Directors:
Mr. TANG Jianxin
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

10 March 2023

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF TARGET EQUITY IN SUNSHINE LAKE PHARMA AND NOTICE OF 2023 FIRST EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement. The purpose of this circular is to provide you with (i) further details in relation to the Equity Transfer Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee in relation to the Equity Transfer Agreement and the transactions contemplated thereunder to the Independent Shareholders; and (iii) a letter from Gram Capital containing its advice in respect of the Equity Transfer Agreement and the transactions contemplated thereunder to the Independent Board Committee and Independent Shareholders, to enable you to make an informed decision on whether to vote for or against or abstain from voting the ordinary resolution to be proposed at the EGM relating to the Equity Transfer Agreement and the transactions contemplated thereunder.

THE EQUITY TRANSFER AGREEMENT

On 23 December 2022, the Company (as the transferor), Shenzhen HEC Industrial (as the transferee) and Sunshine Lake Pharma (as the Target Company) entered into the Equity Transfer Agreement, pursuant to which, the Company agreed to transfer and Shenzhen HEC Industrial agreed to acquire the Target Equity of Sunshine Lake Pharma held by the Company.

The principal terms of the Equity Transfer Agreement are as follows:

Date:

23 December 2022

Parties:

(i) the Company (as the transferor);

(ii) Shenzhen HEC Industrial (as the transferee and a connected person of the Company); and

(iii) Sunshine Lake Pharma (being the Target Company and a connected person of the Company)

(collectively, the "**Parties**")

Subject Matter

Pursuant to the Equity Transfer Agreement, the Company agreed to transfer and Shenzhen HEC Industrial agreed to acquire the Target Equity of Sunshine Lake Pharma held by the Company at a consideration of RMB2,312,319,650. For further information on the Target Company as at the Latest Practicable Date, please refer to the section "Information of the Parties — Sunshine Lake Pharma".

Consideration

The Consideration for the Disposal was determined after arm's length negotiations between the Company and Shenzhen HEC Industrial on normal commercial terms with reference to the market value of total shareholders' equity of the Target Company in the sum of RMB23,325,289,200 as at 31 October 2022 prepared by an independent professional valuer using the asset-based approach.

After the completion of the Equity Transfer pursuant to the Equity Transfer Agreement, Shenzhen HEC Industrial shall directly own 9.9134% of existing shareholding in the Target Company. In the event that there is any change in the corresponding proportion of shareholding as to the registered capital resulting from capital increase in the Target Company, the Parties would unconditionally agree to such change, provided that such change shall not result in any material detriment to the interests of Shenzhen HEC Industrial.

The Consideration of the Disposal shall be payable in cash by Shenzhen HEC Industrial, the specific payment terms of which are as follows:

(1) Shenzhen HEC Industrial shall pay 10% of the transaction consideration, being RMB231,231,965, to the account designated by the Company within seven (7) working days from the Effective Date of the Equity Transfer Agreement; and

(2) Shenzhen HEC Industrial shall pay the remaining balance of the Consideration and interest (if any) to the Company in one lump sum or in instalments before June 30, 2023.

In order to further safeguard the interests of the Company, since the date of completion, Shenzhen HEC Industrial shall pay interest to the account designated by the Company based on unpaid Consideration at the one-year standard loan prime rate (LPR) announced by the National Interbank Funding Center from the date of completion to the date of settlement of the transaction consideration, and the interest shall be paid together with the principal simultaneously.

Conditions Precedent

The Equity Transfer Agreement shall take effect and be binding on the Parties thereto from the date on which all of the following conditions are satisfied (the "**Effective Date**"):

(a) The Equity Transfer Agreement is signed by the legal representatives or authorized representatives of the Parties and sealed with their respective official seals or contract stamp;

(b) The Company has performed the necessary procedures in accordance with relevant laws and regulations, rules, articles of association and internal compliance procedures, including but not limited to (i) obtaining the approval of the Disposal by the Board; (ii) obtaining the approval of the Disposal by Independent Shareholders; (iii) compliance with the Listing Rules or the relevant requirements of the Stock Exchange; and (iv) obtaining consent of other relevant government departments (if applicable); and

(c) Shenzhen HEC Industrial has performed the necessary procedures in accordance with relevant laws and regulations, rules, articles of association and internal compliance procedures, including but not limited to (i) obtaining the approval of the Disposal by the internal approval authority(ies); and (ii) obtaining the consent of other relevant government departments (if applicable).

None of the above conditions precedent may be waived. As at the Latest Practicable Date, the conditions precedent set out in items (a), (b)(i) and (c)(i) above have been fulfilled.

Completion

The Parties shall complete the registration of industrial and commercial changes in respect of the Equity Transfer within ten (10) working days from the Effective Date of the Equity Transfer Agreement with the market supervision and administration department. The date of completion of the industrial and commercial registration shall be the completion date.

The Parties have agreed that prior to the Effective Date of the Equity Transfer Agreement, the rights and obligations as well as risks and benefits of the Target Equity shall be entitled to and borne by the Company; upon the Equity Transfer Agreement being effective, the rights and obligations as well as risks and benefits of the Target Equity shall be transferred to and entitled to and borne by Shenzhen HEC Industrial.

Termination

The Equity Transfer Agreement may be terminated in the following ways:

(a) The Parties may agree in writing after negotiation;

(b) If any event of default occurs, and the defaulting party fails to provide adequate remedies for its breach within fifteen (15) calendar days upon receiving written notice from the non-defaulting party requesting the defaulting party to remedy its breach, or the circumstance of default continues to exist, the non-defaulting party has the right to send a written notice to the defaulting party to cancel or terminate the Equity Transfer Agreement. The Equity Transfer Agreement shall be rescinded and terminated once the written notice of rescission and termination of the Equity Transfer Agreement is delivered to the defaulting party; or

(c) If any party substantially or materially violates its undertakings, representations and warranties or other obligations in the Equity Transfer Agreement, regardless of whether or not all necessary approvals thereunder has been obtained and the payment of the Consideration has been made, the non-defaulting party has the right to terminate the Equity Transfer Agreement unconditionally and unilaterally by notice in writing, and requires the defaulting party to assume its liability for breach of contract in accordance with such requirements thereunder.

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 established in the PRC and the holding company of Sunshine Lake Pharma which is the controlling shareholder of the Company. Through its controlled companies, Shenzhen HEC Industrial is engaged in various businesses, including the production and supply of pharmaceuticals and aluminum products, new energy and electronic materials. The ultimate beneficial owners of Shenzhen HEC Industrial are Ms. GUO Meilan and Mr. ZHANG Yushuai.

Sunshine Lake Pharma

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

FINANCIAL DATA OF THE TARGET COMPANY

Set out below are certain financial information of the Target Company, as extracted from its consolidated financial statements for two financial years ended 31 December 2020 and 2021 prepared in accordance with the China Accounting Standards for Business Enterprises:

	For the year ended 31 December	
	2020	**2021**
	RMB	*RMB*
Revenue	2,432,104,000	1,040,622,300
Profit/(loss) before taxation	127,342,300	(1,489,815,500)
Profit/(loss) after taxation	15,836,000	(1,412,726,200)

Based on the consolidated financial statements of the Target Company prepared in accordance with the China Accounting Standards for Business Enterprises, the net asset value of the Target Company as at 30 September 2022 in the unaudited consolidated financial statements was approximately RMB–423,477,000. For the avoidance of doubt, the Company would like to clarify and draw Shareholders' attention to the fact that the financial information disclosed in the Announcement was extracted from the unconsolidated financial results of the Target Company, whereas the financial information disclosed herein was extracted from the consolidated financial results of the Target Company. Shareholders are advised to read the valuation report in respect of the Target Company issued by Carea, the text of which is set out in Appendix I of this circular for further details of the financial information of the Target Company.

VALUATION OF THE TARGET COMPANY

The market value of total shareholders' equity of the Target Company as at 31 October 2022 prepared by Carea using the asset-based approach was RMB23,325,289,200. You are advised to read the valuation report issued by Carea, the text of which is set out in Appendix I of this circular.

The Company has engaged Carea to perform the Valuation in respect of the Target Company.

The Valuation is prepared based in part on the discounted future cash flows and is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

The Valuation was performed based on the following principal assumptions:

(1) General assumptions

1. Transaction assumption: it is assumed that all assets to be appraised are dealt with in the process of transaction, and the asset valuer conducts the valuation based on the simulated market such as the transaction conditions of the assets to be appraised.

2. Open market assumption: Open market assumption concerns the conditions of the market where the assets are intended to enter and how the assets are affected under such market conditions. The open market refers to fully developed and perfect market conditions, which refers to a competitive market with voluntary buyers and sellers. In this market, buyers and sellers have equal status and have the opportunity and time to obtain sufficient market information, and the transactions between buyers and sellers are conducted under voluntary, rational, non-compulsory or unrestricted conditions.

3. Assumption of continuous use of assets: continuous use assumption is an assumption of the conditions of the market where the assets are intended to enter and the status of the assets under such market conditions. Firstly, the appraised assets are in use, and secondly, it is assumed that the assets in use will continue to be used. Under the assumption of continuous use, without considering the change of use of assets or the best use conditions, the scope of use of the valuation results is limited.

4. Enterprise going concern assumption: The production and operation of the appraised entity can continue to operate in its current condition, and there will be no material changes in its operating conditions in the foreseeable operating period.

(2) Special assumptions

1. It is assumed that there are no material changes in the existing relevant laws and regulations, industry policies, industrial policies, and macro-economic environment of the state and local area (where the appraised entity operates business) as compared with the valuation benchmark date; there are no material changes in the political, economic and social environment of the region where the Target Company operates.

2. It is assumed that there will be no material changes in the fiscal and monetary policies of the regions in which the Target Company operates, and the relevant interest rates, exchange rates, tax bases and tax rates, and policy-based levies.

3. It is assumed that there are no other force majeure factors and unforeseeable factors that will have a material adverse impact on the Target Company continuous operation.

4. It is assumed that the business scope (operation scope), operation model, product structure and decision-making procedures of the Target Company are basically consistent with those currently in place based on the existing management mode (model) and management level, and the future development trend of its business is basically consistent with the development trend of the industry in which it operates as at the valuation benchmark date.

5. It is assumed that the operator of the Target Company is responsible and its management is capable of performing its duties and responsibilities.

6. It is assumed that all business-related qualifications of the appraised entity can successfully obtain the approval of relevant authorities after the expiration of the validity period, and the industry qualifications will remain valid.

7. It is assumed that the main operating assets and businesses of the appraised entity are free from legal disputes and obstacles, and the property rights of the assets are clear.

8. It is assumed that the enterprise will maintain its existing credit policy and will not encounter any major problem of fund recovery in the future.

9. It is assumed that the contracts and agreements entered into by the appraised entity in previous years and the current year are valid and enforceable.

10. It is assumed that the information (basic information, financial information, operational information, forecast information, etc.) provided by the client and the Target Company are true, accurate and complete, and the disclosure of relevant material matters is sufficient.

11. It is assumed that the Target Company fully complies with all relevant current laws and regulations.

12. It is assumed that the future cash flows of the project will be inflows and outflows in the medium term.

13. It is assumed that the research and development results of pre-clinical (non-terminated) research and development projects will be effective in the future, and the expected economic benefits can cover the costs to be paid.

If any of the assumption abovementioned changes, generally the Valuation will be invalid.

Basis of Discount Rate adopted

As advised by Carea, according to Article 22 of the "Practice Standards for Asset Valuation — Intangible Assets" (《資產評估執業準則 — 無形資產》), when valuing intangible assets using the income approach, the discount rate shall be estimated based on factors such as risk factors and the time value of money during the implementation of intangible assets. Also, with reference to Article 34 of the "Guiding Opinions on Valuation of Intangible Assets of Cultural Enterprises" (《文化企業無形資產評估指導意見》) issued by the China Appraisal Society, an asset appraiser who uses the income approach for valuation of intangible assets of cultural enterprises should reasonably determine the discount rate. (I) The discount rate for intangible assets of cultural enterprises can be estimated by means of risk accumulation and enterprise weighted average cost of capital.

The Target Company is a pharmaceutical innovation and research and development ("**R&D**") enterprise focusing on R&D, production and sales of pharmaceutical products. As the Target Company's future production and sales of pipeline pharmaceutical products mainly through the establishment of project companies by way of entrusted processing, it can be regarded as a project asset group that can generate cash flow. Carea confirmed the discount rate based on the method of weighted average cost of capital of the enterprise as follows:

$$WACC = R_e \frac{E}{D + E} + R_d \frac{D}{D + E} (1 - T)$$

The cost of equity Re is calculated using the Capital Asset Pricing Model (CAPM), and the formula is as follows:

$$Re = Rf + \beta \times ERP + Rs$$

The above calculation methods meet the definition of risk factors and time value of money in the process of implementation in the intangible asset valuation standards, and also meet the definition of intangible asset discount rate calculation in the valuation guidance.

During the continuing education training organised by the China Appraisal Society in 2020, in the course of "Explanation on Difficulties in Intangible Asset Valuation" (《無形資產評估中難點問題講解》), the industry experts proposed to use the income approach to evaluate intangible assets, and the discount rate was determined through the weighted cost of capital analysis of the enterprise rather than a simple risk accumulation method. The cost of equity capital determined by the Weighted Average Cost of Capital (WACC) was calculated using the CAPM model.

Meanwhile, Carea inquired relevant cases in the A share market, and noted that when the income approach was adopted for the valuation of intangible assets and asset groups in the A share market, the discount rate calculation ideas and methods in this project were adopted in a larger extent, and the capital asset pricing model was adopted for the calculation of the cost of equity capital.

KPMG, the reporting accountants of the Company, has reported to the Directors as required by Rule 14.62(2) of the Listing Rules in regard to the calculations of the discounted future cash flows used in the Valuation. The Board confirms that it has made the profit forecast of the Target Company after due and careful enquiries.

A report from KPMG as required under Rule 14.62 of the Listing Rules and the letter from Board relating to the profit forecast of the Target Company are set out in the Appendix II and Appendix III to this circular, respectively.

FINANCIAL EFFECTS OF THE TRANSACTIONS

Following the completion of the Disposal, the Company will no longer hold any interest in the Target Company. As the Company only held 9.9134% equity interest in Sunshine Lake Pharma, the financial results of Sunshine Lake Pharma was not consolidated in the Company's consolidated financial statements. Accordingly, save as the expected gain on disposal arising from the Disposal, the Directors are of the view that the Disposal will not have any material impact on the Company's financial position.

Following the completion of the Disposal, it is estimated that the Company will realize a profit of approximately RMB438,425,263 for the Disposal, being the difference between the consideration of RMB2,312,319,650 and the sum of (i) the book value of the Group's interest in the Target Company as at 1 January 2022 in the amount of approximately RMB1,789,621,319; and (ii) the estimated amount of approximately RMB84,273,068 of other expenses (including stamp duty, income tax and service fees for professional parties and etc.) that may be payable by the Company as a result of the Disposal.

The net proceeds from the Disposal (after deducting transaction costs and expenses) are estimated to be approximately RMB2,228,046,582. The Company intends to use the proceeds from the Disposal of the Target Equity as follows:

(i) approximately RMB2.1 billion to repay the outstanding debts of the Company by the end of 2023; and

(ii) approximately RMB100 million to be used for other working capital purposes.

REASONS FOR THE TRANSACTIONS AND PROPOSED USE OF PROCEEDS

The Disposal aims to address the cross-shareholding formed between Sunshine Lake Pharma and the Company for clarity of equity interest of the Parties, thus to facilitate the development and operation of both parties in the future.

After considering the foregoing, the Directors (including all independent non-executive Directors who have taken into account the advice of Gram Capital) are of the view that, although the Disposal was not conducted during the normal and ordinary course of business of the Group, the Disposal is fair and reasonable, the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

As Mr. TANG Xinfa, the non-executive Director, is the director and general manager of Shenzhen HEC Industrial, he is deemed to have a material interest in the transactions contemplated by the Company and Shenzhen HEC Industrial and has abstained from voting on the board resolutions for approving the transactions contemplated between the Company and Shenzhen HEC Industrial.

Save as disclosed above, no other Directors have any material interest in the Disposal, therefore no other Directors shall abstain from voting on the Board resolutions in relation to the Disposal.

IMPLICATIONS UNDER THE LISTING RULES

Sunshine Lake Pharma is entitled to control the exercise of approximately 51.41% of the 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 Sunshine Lake Pharma. Therefore, as an associate of Sunshine Lake Pharma, Shenzhen HEC Industrial constitutes a connected person of the Company by virtue by being the holding company of the controlling shareholder of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the transactions between the Company and Shenzhen HEC Industrial constitute connected transactions of the Company.

Since the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Equity Transfer Agreement and the transactions contemplated thereunder exceeds 25% but is lower than 75%, the Equity Transfer Agreement and the transactions contemplated thereunder constitute a major transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapter 14 of the Listing Rules.

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 Tuesday, 28 March 2023 for Shareholders to consider and, if thought fit, to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder who has a material interest in the connected transaction shall abstain from voting on the relevant resolution(s) at the EGM. As at the Latest Practicable Date, Sunshine Lake Pharma is entitled to control the exercise of approximately 51.41% of the 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 Sunshine Lake Pharma. Therefore, 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 Equity Transfer Agreement and the transactions contemplated thereunder.

Save as above-mentioned and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, there are no other Shareholders who have a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder. Therefore, no other Shareholders shall abstain from voting on the relevant resolution(s) at the EGM.

A notice convening the EGM, together with the form of proxy for use at the EGM, has been despatched to the Shareholders on Friday, 10 March 2023 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 Monday, 27 March 2023) or any adjournment thereof. Completion and return of the form of proxy shall not preclude Shareholders from attending, and voting in person at the EGM or any adjournment thereof if they so desire.

In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM, the register of members of the Company will be closed for registration of transfer of Shares from Monday, 27 March 2023 to Tuesday, 28 March 2023 (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 Monday, 27 March 2023 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 Friday, 24 March 2023 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 (including all independent non-executive Directors who have taken into account the advice of Gram Capital) is of the opinion that the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Independent Shareholders shall vote in favour of the ordinary resolution to be proposed at the EGM.

Mr. TANG Xinfa, 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 Equity Transfer Agreement and the transactions contemplated thereunder.

RECOMMENDATIONS OF THE INDEPENDENT FINANCIAL ADVISOR AND THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee (comprising Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen, all being independent non-executive Directors) has been formed to advise the Independent Shareholders in connection with the Equity Transfer Agreement and the transactions 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 Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, Gram Capital recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder. The full text of the Letter from Gram Capital containing its recommendation in respect of the Equity Transfer Agreement and the transactions contemplated thereunder is set out on pages 18 to 49 of this circular.

The Independent Board Committee, having taken into account the advice of Gram Capital, considers the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder. The full text of the Letter from the Independent Board Committee is set out on page 17 of this circular.

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

YiChang HEC ChangJiang Pharmaceutical Co., Ltd.
宜昌東陽光長江藥業股份有限公司

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

(Stock Code: 01558)

10 March 2023

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF TARGET EQUITY IN SUNSHINE LAKE PHARMA

We refer to the circular of the Company dated 10 March 2023 (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 Equity Transfer Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder. 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 Gram Capital" as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of Gram Capital as set out in their letter of advice, we are of the view that, although the Disposal was not conducted during the normal and ordinary course of business of the Group, the Disposal is fair and reasonable, the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution in respect of the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM.

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

TANG Jianxin	**XIANG Ling**	**LI Xuechen**
Independent Non-Executive Director	*Independent Non-Executive Director*	*Independent Non-Executive Director*

Set out below is the text of a letter received from Gram Capital, the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders in respect of the Disposal for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

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

10 March 2023

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

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF TARGET EQUITY IN SUNSHINE LAKE PHARMA

INTRODUCTION

We refer to our appointment as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 10 March 2023 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 23 December 2022, the Company (as the transferor), Shenzhen HEC Industrial (as the transferee) and Sunshine Lake Pharma (as the Target Company) entered into the Equity Transfer Agreement, pursuant to which, the Company agreed to transfer and Shenzhen HEC Industrial agreed to acquire the Target Equity of Sunshine Lake Pharma held by the Company.

With reference to the Board Letter, the Disposal constitutes a major and connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Chapter 14 and Chapter 14A of the Listing Rules.

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

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as an independent financial advisor in relation to (i) discloseable and connected transactions, details of which are set out in the Company's circular dated 28 May 2021; (ii) continuing connected transactions and connected transaction, details of which are set out in the Company's circular dated 28 May 2021; (iii) continuing connected transactions, details of which are set out in the Company's circular dated 2 August 2022; and (iv) continuing connected transactions, details of which are set out in the Company's announcement dated 27 February 2023. 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 are 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 Advisor.

Having considered that (i) none of the circumstances as set out under Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagements were only independent financial advisory engagements, we are of the view that we are independent to act as the Independent Financial Advisor.

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 Equity Transfer Agreement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Group or Sunshine Lake Pharma and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report of Sunshine Lake Pharma prepared by Carea (the "**Valuation Report**"), summary of which is set out in Appendix I to the Circular. Since we are not experts in the valuation of assets or businesses, we have relied solely upon the Valuation as at 31 October 2022 (the "**Valuation Date**").

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 the 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 the Circular or any statement therein misleading. We, as the Independent Financial Advisor, 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, Shenzhen HEC Industrial, Sunshine Lake Pharma or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Disposal. 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Information on the Group

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.

As confirmed by the Directors, as at the Latest Practicable Date, Sunshine Lake Pharma was interested in approximately 51.41% equity interests of the Company, of which approximately 25.705% was directly owned by Sunshine Lake Pharma and approximately 25.705% was indirectly owned by Sunshine Lake Pharma through its wholly-owned subsidiary (i.e. HEC (Hong Kong) Sales Co., Limited ("**HEC HK**")). The ultimate beneficial owner of the Company are Ms. GUO Meilan and Mr. ZHANG Yushuai.

Financial performance for FY2021 and FY2020

Set out below are the audited consolidated financial information of the Group 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")	**For the year ended 31 December 2020 ("FY2020")**	**Year-on-year change**
	RMB'000	*RMB'000*	*%*
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 equity shareholders 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.

The Group's gross profit was approximately RMB483.7 million for FY2021, 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.

The Group's loss attributable to equity shareholders of the Company for FY2021 was approximately RMB587.7 million as opposed to profit attributable to equity shareholders of the Company of approximately RMB839.5 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.

Financial performance for 1H2022 and 1H2021

Set out below are the unaudited consolidated financial information of the Group for the six months ended 30 June 2022 (with comparative figures), as extracted from the Company's interim report for the six months ended 30 June 2022 (the "**2022 Interim Report**"):

	For the six months ended 30 June 2022 ("1H2022") *RMB'000*	**For the six months ended 30 June 2021 ("1H2021")** *RMB'000*	**Year-on-year change** %
Revenue	1,293,308	202,246	539.47
— *sales of anti-viral drugs*	*1,012,403*	*57,300*	*1,666.85*
— *sales of endocrine and metabolic drugs*	*42,469*	*34,193*	*24.20*
— *sales of cardiovascular drugs*	*76,327*	*44,207*	*72.66*
— *sales of anti-infectives drugs*	*41,714*	*39,354*	*6.00*
— *sales of other medical products and license fee*	*120,395*	*27,192*	*342.76*
Gross profit	960,657	100,788	853.15
Loss attributable to equity shareholders of the Company	(32,798)	(507,028)	(93.53)

As illustrated in the above table, the Group's revenue and gross profit were approximately RMB1,293.3 million and RMB960.7 million respectively for 1H2022, representing significant increases of approximately 539.47% and 853.15% as compared to those for 1H2021. With reference to the 2022 Interim Report, the increases were primarily attributed to the fact that the COVID-19 pandemic prevention and control in China had generally stabilized, the flow of people and daily social activities had 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 during the 1H2022. In addition, many southern provinces in China issued flu warnings and the number of patients of fever clinics surged in 2022. Meanwhile, comparing with the early stage of the COVID-19 pandemic, the current inventory of Kewei channels has returned to a normal and reasonable level. Therefore, with gradual recovery of the flow of people and the number of flu cases and the normalization of the Company's channel inventory, Kewei, the Group's core product, showed a very good trend of recovery in its sales volume leveraging on its brand advantages accumulated in the field of flu treatment for years and its advantages in efficacy and safety.

As a result of the aforesaid, the Group's loss attributable to the equity shareholders of the Company for 1H2022 decreased substantially by approximately 93.53% as compared to that for 1H2021.

With reference to the 2022 Interim Report, looking forward to the second half of 2022, as the development direction of China's pharmaceutical industry is gradually shifting from generic drugs to innovation drugs, drug innovation has become the core competitiveness which supports the future development of enterprises. In order to capture opportunities in the fierce competition, pharmaceutical companies need to make continuous efforts in various aspects including product research and development ("**R&D**"), technical process improvement, production and supply chain management and sales management, while striving to grasp the initiative of industry competition and forming good sustainable advantages by grasping the market demand and trend of the pharmaceutical industry and consolidating and expanding the corresponding strategic target markets more effectively. The Company will continually increase its investment in R&D and accelerate the transformation of drug R&D into clinical applications in the therapeutic areas of anti-infective, endocrine and metabolic diseases. The Company will also continue to optimize its scientific and sustainable marketing strategy, strengthen academic promotion and drug promotion activities, further promote its core products in graded hospitals and primary medical markets, and strive to create a highly recognized business image and well-respected reputation in the domestic market, in order to lay a solid foundation for new products to be rapidly launched in the market in the future.

Information on Shenzhen HEC Industrial

With reference to the Board Letter, Shenzhen HEC Industrial is a company established in the PRC and the holding company of Sunshine Lake Pharma which is the controlling shareholder of the Company. Through its controlled companies, Shenzhen HEC Industrial is engaged in various businesses, including the production and supply of pharmaceuticals and aluminum products, new energy and electronic materials. The ultimate beneficial owners of Shenzhen HEC Industrial are Ms. GUO Meilan and Mr. ZHANG Yushuai.

Information on Sunshine Lake Pharma

With reference to the Board Letter, Sunshine Lake Pharma is a company established in the PRC and the indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It is principally engaged in development, manufacturing and sales of pharmaceutical products. As further advised by the Directors, Sunshine Lake Pharma has obtained, applied for or intended to apply for (1) national pharmaceutical approval numbers for its pharmaceutical products listed overseas; and (2) new national pharmaceutical approval numbers (domestic pharmaceutical products under the national pharmaceutical approval numbers are collectively referred to as the "**Domestic Products**").

The ultimate beneficial owner of Sunshine Lake Pharma are Ms. GUO Meilan and Mr. ZHANG Yushuai.

The summary of consolidated financial information of Sunshine Lake Pharma for the two years ended 31 December 2021 are set out under the section headed "FINANCIAL DATA OF THE TARGET COMPANY" of the Board Letter.

As advised by the Directors, the change of consolidated financial performance of Sunshine Lake Pharma was mainly due to the change of financial performance of the Group, the financial results of which were consolidated into the financial results of Sunshine Lake Pharma.

As stated in the Board Letter, based on the consolidated financial statements of Sunshine Lake Pharma prepared in accordance with the China Accounting Standards for Business Enterprises, the negative consolidated net asset value of Sunshine Lake Pharma as at 30 September 2022 was approximately RMB423,477,000.

As at the Latest Practicable Date, the Company was interested in approximately 9.9134% equity interests in Sunshine Lake Pharma.

The Company entered into a non-competition agreement with the then controlling shareholders of the Company (the "**2015 Controlling Shareholders**") in December 2015 (the "**2015 Non-Competition Agreement**"), pursuant to which, the 2015 Controlling Shareholders agreed not to, and will procure their subsidiaries (other than the Group) not to, compete with the Group in the Group's businesses and granted the Group the right to acquire the businesses of production and sales of active pharmaceutical ingredients (APIs) and overseas sales of pharmaceutical products operated by the Parent Company and/or its subsidiaries (other than the Group) and certain future new businesses. As the Company and Sunshine Lake Pharma will make more specific arrangements in relation to the business cooperation, the relevant contents of the 2015 Non-Competition Agreement will no longer be applicable to Sunshine Lake Pharma. Therefore, the controlling shareholders of the Company proposed to amend the 2015 Non-Competition Agreement to stipulate that the relevant contents of the 2015 Non-Competition Agreement will no longer be applicable to Sunshine Lake Pharma and that a new non-competition agreement will be entered into between Sunshine Lake Pharma and the Company. Furthermore, in order to further protect the interests of the Company, the controlling shareholders of the Company intended to grant 10% of the equity of Sunshine Lake Pharma to the Company through itself or a third party designated by it at nil consideration.

According to the Company's voluntary announcement dated 10 August 2021, on 10 August 2021, the Company received a notice from Shenzhen HEC Industrial that it has designated its controlling subsidiary, Yichang HEC Research Co., Ltd.* (宜昌東陽光藥研發有限公司) (being the direct controlling shareholder of Sunshine Lake Pharma), to compensate the Company and transfer 10% of the equity of Sunshine Lake Pharma.

As Sunshine Lake Pharma's registered capital was increased after the Company's receipt of 10% of the then equity of Sunshine Lake Pharma, the Company's equity interests in Sunshine Lake Pharma were diluted to approximately 9.9134%.

Reasons for and benefits of the Disposal

With reference to the Board Letter, the Disposal aims to address the cross-shareholding formed between Sunshine Lake Pharma and the Company pursuant to the 2015 Non-Competition Agreement, for clarity of equity interest of the Parties, thus to facilitate the development and operation of both parties in the future.

The net proceeds from the Disposal (after deducting transaction costs and expenses) are estimated to be approximately RMB2,228,046,582. The Company intends to use the proceeds from the Disposal of the Target Equity as follows: (i) approximately RMB2.1 billion to repay the outstanding debts of the Company by the end of 2023; and (ii) approximately RMB100 million to be used for other working capital purposes. As at 30 June 2022, the Group had approximately RMB2,824.4 million of interest-bearing borrowings and approximately RMB732.8 million of bank loans. After discussion with the Directors, we understood that once the outstanding borrowings is settled or partially settled, the finance cost from such borrowings will be reduced and therefore the Group's financial performance will be improved.

As mentioned above, Sunshine Lake Pharma is principally engaged in development, manufacturing and sales of pharmaceutical products. As advised by the Directors, the development of pharmaceutical products is capital intensive and normally will be required to invest a large amount of fund initially. As at the Latest Practicable Date, Sunshine Lake Pharma was entitled to control the exercise of approximately 51.41% of the voting rights of the Company; whereas the Company was interested in approximately 9.9134% equity interests in Sunshine Lake Pharma. As there was cross-shareholding between Sunshine Lake Pharma and the Company, based on the Directors understanding from Sunshine Lake Pharma, such arrangements may affect Sunshine Lake Pharma's further fund raising ability, which may affect the business development of Sunshine Lake Pharma. The aforesaid impact may not be beneficial to the Company as there are various cooperation arrangements between the Group and Sunshine Lake Pharma (such as the

Company may be given priority to obtain opportunities for the promotion and commercialization of the Domestic Products within the PRC at nil consideration and cooperate and carry out transactions through relevant income sharing model).

We further understood that Sunshine Lake Pharma recorded loss attributable to the owner of the parent company for the two years ended 31 December 2021. In addition, as also advised by the Directors, Sunshine Lake Pharma had not distributed any dividend for over 5 years.

The Disposal also provided an opportunity for the Company to release its interests in Sunshine Lake Pharma, which was obtained by the Company from its connected persons as a gift.

Furthermore, as stated in the Board Letter, following the completion of the Disposal, it is estimated that the Company will realize an unaudited profit of approximately RMB438,425,263 from the Disposal.

In light of the above, we concur with the Directors that although the Disposal is not conducted in the ordinary and usual course of business of the Group, the Disposal is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Disposal

Summarised below are the principal terms of the Disposal, details of which are set out under the section headed "THE EQUITY TRANSFER AGREEMENT" of the Board Letter.

Date:

23 December 2022

Parties:

(i) the Company (as the transferor);

(ii) Shenzhen HEC Industrial (as the transferee and a connected person of the Company); and

(iii) Sunshine Lake Pharma (being the Target Company and a connected person of the Company)

Subject Matter and Consideration

Pursuant to the Equity Transfer Agreement, the Company agreed to transfer and Shenzhen HEC Industrial agreed to acquire the Target Equity of Sunshine Lake Pharma held by the Company at a consideration of RMB2,312,319,650.

The Consideration for the Disposal shall be payable in cash by Shenzhen HEC Industrial, the specific payment terms of which are as follows:

(1) Shenzhen HEC Industrial shall pay 10% of the transaction consideration, being RMB231,231,965, to the account designated by the Company within seven (7) working days from the effective date of the Equity Transfer Agreement; and

(2) Shenzhen HEC Industrial shall pay the remaining balance of the Consideration and interest (if any) to the Company in one lump sum or in instalments before 30 June 2023.

In order to further safeguard the interests of the Company, since the date of completion, Shenzhen HEC Industrial shall pay interest to the account designated by the Company based on unpaid Consideration at the one-year standard loan prime rate (LPR) announced by the National Interbank Funding Center from the date of completion to the date of settlement of the transaction consideration, and the interest shall be paid together with the principal simultaneously.

With reference to the Board Letter, the Consideration for the Disposal was determined after arm's length negotiations between the Company and Shenzhen HEC Industrial on normal commercial terms with reference to the market value of total shareholders' equity of Sunshine Lake Pharma in the sum of RMB23,325,289,200 (i.e. the Valuation) as at 31 October 2022 prepared by Carea using the asset-based approach.

The Valuation

Upon our request, we obtained and reviewed the Valuation Report prepared by Carea. We noted that the market value of total shareholder's equity of Sunshine Lake Pharma as at the Valuation Date was approximately RMB23,325,289,200.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of Carea with the Company; (ii) Carea's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by Carea for conducting the Valuation. From the mandate letter and other relevant information provided by Carea and based on our interview with Carea, we noted that (i) the scope of valuation, valuation target and valuation date were consistent to that as intended for the Valuation; and (ii) Carea is an entity registered as an asset appraisal institution with the China Appraisal Society. Based on the aforesaid, we were satisfied with the terms of engagement of Carea as well as Carea's qualification for the preparation of the Valuation Report. Furthermore, we were not aware the Company and/or Shenzhen HEC Industrial had made any formal or informal representation to Carea which were not in accordance with our knowledge.

Having considered the following factors, including:

(i) as required under provision four of《資產評估基本準則》(Asset Evaluation Standards-Basic Standards*, the "**Valuation Standards**") as issued by Ministry of Finance of the PRC and updated in 2017, asset appraisal institution and its professional staff shall carry out asset appraisal activities in accordance with provisions of laws and administrative regulations, uphold to the principle of independence, objectivity and impartiality;

(ii) as required under provision six of the Valuation Standards, when asset appraisal institution and its professional staff shall carry out asset appraisal activities, they (a) should perform independently in analysing, evaluating and forming their opinion; (b) should not be affected by client or its relevant persons; and (c) should not determine the value on pre-setting basis;

(iii)《資產評估職業道德準則－獨立性》(Code of Professional Ethics for Asset Evaluation-Independence*) as issued by China Appraisal Society in 2012 further elaborate and emphasis the independence of asset appraisal institution and certified valuers;

(iv) based on the public information and the Circular, none of the shareholders of Carea owned more than 10% equity interests in the Company and none of the substantial Shareholders were shareholders of Carea as at the Latest Practicable Date;

(v) upon our request, Carea confirmed that they are independent to the Group, Sunshine Lake Pharma, Shenzhen HEC Industrial and their respective core connected persons (as defined under the Listing Rules); and

(vi) despite Carea provided valuation related services to the Company during the past two years prior to the Latest Practicable Date, consist of five engagements regarding the assessment of recoverable amount of various intangible assets and goodwill for financial reporting purposes, as confirmed by Carea, due to the fact that (a) the aforesaid past engagements will not affect Carea's independence to act as Carea to the conduct valuation on the Sunshine Lake Pharma; (b) Carea acted as independent service provider and they maintained their independence with the Company and its respective core connected persons (as defined under the Listing Rules); and (c) the service fees of the aforesaid past engagements paid by the Company to Carea accounted for an insignificant portion of its revenue for the relevant period, Carea confirmed that there is no relationship which affect its independence with the Group, Sunshine Lake Pharma, Shenzhen HEC Industrial and their respective core connected persons (as defined under the Listing Rules),

we are satisfied with the independence of Carea in respect of the preparation of the Valuation Report.

We also reviewed the Valuation Report and enquired into Carea on the methodologies adopted and the basis and assumptions adopted in arriving at the Valuation in order for us to understand the Valuation Report. Key assumptions of Valuation Report are set out in Appendix I to the Circular. We noted from the Valuation Report that the Valuation Report was prepared by Carea in accordance with various requirements/standards, including the Valuation Standards. According to the Valuation Standards, (i) the fundamental valuation approaches of assets valuation include income approach, market approach and asset-based approach, and (ii) the valuer should analyse the applicability of the three fundamental valuation approaches and select the valuation methodology.

The Valuation Report was prepared by Carea using asset-based approach. With reference to the Valuation Report and as confirmed by Carea, Carea considered each of the fundamental valuation approaches. Upon our further enquiry with Carea, we understood that:

- Sunshine Lake Pharma is an innovative pharmaceutical research and development enterprise with R&D, pre-clinical and clinical development, drug registration, manufacturing and sales of small molecular innovative drugs, biopharmaceutical innovative drugs and generic drugs as its core business. Its pipeline includes multiple R&D projects such as new drugs, biosimilars and generic drugs. The pharmaceutical R&D industry is characterised by high investment, high returns and high risks, and the research direction and difficulties of each R&D project, the life cycle of drugs and operational risks vary greatly. The R&D expenditure invested and the economic returns generated by each R&D project cannot fully reflect the current and future R&D expenditure and the economic returns generated by the Company's overall R&D projects. The risks associated with the expected income of the valuation target are difficult to be measured, the income period is difficult to be determined or reasonably expected, therefore the income approach is not applicable to the Valuation.

  In addition, we also noted that the revenue as reflected in the consolidated financial statements of Sunshine Lake Pharma was mainly attributed by the consolidation of the Group's financial results.

- The market approach assesses the current fair market value of the valuation target by reference to the references in the real market. It has the characteristics of direct valuation angle and valuation method, intuitive valuation process, direct valuation data from the market, and strong support for valuation results. Among the listed companies in the same industry as Sunshine Lake Pharma, there are fewer listed companies that are basically comparable to the Sunshine Lake Pharma and cannot meet the "comparable" requirements of the market approach for sufficient number of comparable enterprises, after comparing them with the valuation target based on their time of establishment, time of listing, scope of business, scale of enterprise, main products, business composition, operating indicators, business model, operation stage, financial data or transaction purpose, transaction time, transaction situation and transaction price of the transaction cases. Therefore, the market approach is not suitable for the Valuation.

  Furthermore, we also noted that Sunshine Lake Pharma recorded loss attributable to the owner of the parent company for the year ended 31 December 2021 and net liabilities attributable to the owner of the parent company as at 30 September 2022. As price-to-earnings and price-to-book value are the two generally adopted valuation methods under the market approach, the aforesaid two valuation methods could not be applied in the Valuation.

We further noted from the Valuation Report that (i) Sunshine Lake Pharma's main source of income are derived or will be derived from its R&D projects, of which the R&D projects that entered into clinical stage (the "**Clinical Stage Projects**") were valued by Carea using income approach; and (ii) Sunshine Lake Pharma's principal operating subsidiary is the Company, Sunshine Lake Pharma's long-term investment in the Company (including intangible assets of certain subsidiaries of the Company and the Company's research and development costs of Donganqiang, Rongliflozin and Liraglutide) was valued and concluded by Carea using income approach (together with the Clinical Stage Projects, "**Items under Income Approach**"), while the other subsidiaries of Sunshine Lake Pharma were valued by Carea using asset-based approach. Given that market approach and income approach, being two of the three fundamental valuation approaches, were inapplicable for the Valuation, we did not cross-check for items under the Valuation other than Items under Income Approach.

As Carea adopted income approach to conduct part of the Valuation, both the Company and the reporting accountants of the Company issued letter/report on discounted future cash flows, which are regarded as profit forecast. Please refer to Appendix II and Appendix III to the Circular for details.

In arriving at the Valuation, Carea had (a) discussed with the management of Sunshine Lake Pharma to understand the business model of Sunshine Lake Pharma; (b) obtained financial information of Sunshine Lake Pharma to determine their scope of work; and (c) conducted verification work on the existence and ownership of each of Sunshine Lake Pharma's assets and liabilities. We noted from the Valuation that Carea categorised the assets and liabilities of Sunshine Lake Pharma into the follow category; and we conducted the following analyses:

(A) Current assets: the book value and appraisal value of Sunshine Lake Pharma's current assets were RMB2,667.2 million and RMB2,649.5 million respectively as at the Valuation Date. The decrease in appraisal value of current assets as compared to its book value was primarily due to the decrease in appraisal value of trade and other receivables, partially offset by the increase in appraisal value of inventories.

We noted from the Valuation Report that, in respect of trade and other receivables, Carea verified the existence and assessed the recoverability of each receivable balances based on the aging analysis and the reasons for overdue payment, the historical recoverability and the credit rating of the debtor in order to arrive at the value of the trade and other receivables. For trade and other receivables where the debtors are independent third parties, Carea adopted the credit loss rate, based on the debtors' aging profile, to arrive at the appraisal value of each independent third parties' debtor. For trade and other receivables where the debtors are connected persons, Carea determined the appraisal value based on the recovery rate of such debtors, which was calculated based on the net asset value of the relevant debtors and the proportion of its total liabilities covered by its total assets.

In respect of inventories, Carea verified the quantity of the inventories and calculated the unit price based on the then current market prices and estimated transportation and other costs.

Based on the verification works performed by Carea and the methodology adopted in determining the appraisal value of the current assets, we are of the view that the approach adopted by Carea is fair and reasonable.

(B) Non-current assets: the book value and appraisal value of Sunshine Lake Pharma's non-current assets were approximately RMB4,001.6 million and RMB26,559.7 million respectively as at the Valuation Date. The increase in appraisal value of non-current assets as compared to its book value was primarily due to the increases in appraisal value of (a) long-term investments; and (b) intangible assets.

B.1 Long-term investments

The book value and appraisal value of Sunshine Lake Pharma's long-term investments were RMB3,429.0 million and RMB6,227.7 million respectively as at the Valuation Date. We noted from the Valuation Report that in assessing the appraisal value of Sunshine Lake Pharma's long-term investments, Carea considered the operating status of each investee company in determining the valuation approaches. For companies under normal operations, the appraisal value of the long-term investments was determined with reference to their individual valuations (concluded using either asset-based approach or income approach) and Sunshine Lake Pharma's shareholding in such company; for companies that had not commenced operations, the appraisal value was considered to be nil. The increase in appraisal value of long-term investments as compared to its book value was primarily due to the increase in appraisal value of the Company (the equity interests which was directly held by Sunshine Lake Pharma) and appraisal value of HEC HK (which held 25.705% equity interests of the Company), the appraisal value of which were determined by Carea using income approach and asset-based approach respectively.

The Company

In respect of the valuation of Sunshine Lake Pharma's investment in the Company, we enquired into Carea and understood that:

(i) operating income were forecasted based on (a) the expected commercialisation date of the Company's new drug products; (b) the expected sales volume for the Company's new and existing drug products; and (c) their estimated unit price.

We obtained and reviewed historical data of each of the Company's drug products and noted from the Valuation that (1) the expected sales volume for the Company's drug products for the two months ending 31 December 2022 was formulated based on the sales volume of the historical sales volume for the ten months ended 31 October 2022; (2) the estimated sales volume for each year from 2023 onward was formulated based on the annualised sales volume of the drug products for the year ending 31 December 2022 and expected growth rates for the Group's core products ranging from 5% to 10% per annum up to the year ending 31 December 2028; (3) the estimated unit price of existing drug products was determined with reference to the average selling price for the ten months ended 31 October 2022 and with further adjustments with reference to the central procurement results; and (4) the estimated unit price of new drug products was determined based on the expected unit price upon commercialisation or central procurements results.

In respect of the expected growth rates of 5% to 10% per annum adopted in formulating the estimated sales volume for each year from 2023 onward, we noted from the "Statistical Communique of the People's Republic of China on the 2021 National Economic and Social Development" as published by the National Bureau of Statistics of the PRC that the total retail sales of traditional Chinese and western medicines recorded a year-on-year of 9.9% as compared to that for the year 2020. As such, we consider the growth rates adopted in formulating the estimated sales volume are reasonable.

Based on the above, we consider the assumption adopted in formulating forecasted operating income to be reasonable.

(ii) operating costs include direct costs of each drug products (comprised of direct material costs, staff costs and other production costs), licensing fee for certain of the Company's drug products, and depreciation.

We obtained and reviewed historical data in respect of the Company's operating costs and noted from the Valuation that (1) the estimated direct material costs were determined with reference to the average material costs of each drug products for the ten months ended 31 October 2022; (2) the estimated staff costs were determined with reference to the estimated number of staff per annum and the historical average weighting of staff costs attributable to operating costs; (3) the estimated other production costs were determined with reference to the historical level of expenditure and the average weighting of such expenditure attributable to operating costs; (4) the estimated licensing fee was formulated based on the estimated sales volume of the particular drug products and the applicable licensing fee rates; and (5) the estimated depreciation was formulated based on estimated future capital expenditure, the corresponding depreciation and the average weighting of depreciation attributable to operating costs.

Based on the above, we consider the assumption adopted in formulating forecasted operating costs to be reasonable.

(iii) other expenses mainly comprised of selling expenses, administrative expenses and R&D costs, which were formulated with reference to the historical level of the relevant expenses to the historical revenue, and finance costs, which were formulated with reference to the existing outstanding borrowings of the Company. We consider the assumption in formulating the forecasted other expenses to be reasonable.

(iv) the discount rate (weighted average cost of capital of the Company, which was calculated by multiplying the cost of each capital source (debt and equity) by its relevant weight and then adding the products together) applied to the valuation of the Company was 10.77%.

We noted that Carea adopted capital asset pricing model ("**CAPM**") to assess the cost of equity of the Company for the valuation. In arriving at the cost of equity, Carea took into account a number of factors including (1) risk-free rate; (2) market risk premium; (3) beta; and (4) specific risk premium.

For our due diligence purpose, we conducted the following works:

- We searched through the internet and noted that the CAPM is widely adopted for the purpose of estimating the required rate of return on equity;

- We noted that the risk-free rate adopted by Carea was determined with reference to the return yield of government bonds with residual maturity of more than ten years as at the Valuation Date. We understood from Carea that the use of government bonds yield to determine the risk-free rate was in accordance to the 《資產評估專家指引第12號 — 收益法評估企業價值中折現率的測算》 (Asset Appraisal Expert Guideline No. 12 — Calculation of Discount Rate in Income Approach Appraisal of Enterprise Value*, the "**Expert Guideline No. 12**") as promulgated by the China Appraisal Society and is a common practice among the valuation industry;

- We obtained the list of comparable companies used for the calculation of the unlevered beta. We noted from the Valuation Report that Carea had adopted the following criteria in selecting the comparable companies: (1) A-shares listed companies in the PRC with shares listed on the relevant stock exchange for more than three years; and (2) companies engaged in similar activities as the Company (i.e. development, manufacturing and sales of pharmaceutical products in the PRC) with similar size, scale and operating stage. We understood from Carea that the list of comparable companies is exhaustive based on their selection criteria. Based on the aforesaid criteria, we considered the list of comparable companies is fair and representative for the calculation of unlevered beta. We cross-checked the beta of the selected comparable companies through Wind Financial Terminal and noted that the beta adopted by Carea did not deviate from our findings. The beta of the Company adopted by Carea is further calculated based on the unlevered beta and debt to equity ratio of the Company; and

- We noted that Carea adopted the market risk premium of 7.12%, which was determined with reference to the China Securities Index 300 yield indicator. We understood from Carea that market risk premium represents the difference between the expected return on a market portfolio and the risk-free rate, being the additional returns which investors would require when putting a portfolio of assets at risk in the market. As such, the return of securities market indices are often used in determining market risk premium for valuation purpose. We also noted from the Expert Guideline No. 12 that market price premium can be determined with reference to (1) indices of securities market in the PRC; (2) the premium of other mature capital market; or (3) the statistics as published by relevant experts or professional bodies. Given the nature of market risk premium as aforementioned and that the Company primarily operate in the PRC, we do not doubt the reasonableness of referencing the China Securities Index 300 yield indicator in determining the market risk premium.

In addition, we noted Carea adopted the cost of debt of 5.42%, which were determined with reference to the long-term loan prime rate as published by The People's Bank of China and the weighted average interest rate of the Company's existing borrowings, net of tax effect.

Based on the aforesaid, we consider the discount rate adopted by Carea is fair and reasonable.

(v) Surplus or non-operating assets and liabilities: As advised by Carea, surplus assets refer to the assets that are not involved in the free cash flow forecast of the enterprise after the valuation base date and are beyond the requirements of the enterprise's production and operation. Non-operating assets and liabilities refer to the assets and liabilities that are not related to the production and operation of the appraised entity and are not involved in the free cash flow predicted after the base date of the appraisal.

As at the Valuation Date, the Company owned seven subsidiaries and the Company sells its pharmaceutical products through one of the seven subsidiaries, being a wholly-owned subsidiary of the Company. In addition, the Company also conducted market promotion through another subsidiary of the Company. Therefore, the valuations of these two subsidiaries were considered as part of the valuation of the Company through income approach as mentioned above.

Cost approach was adopted for the valuation of the remaining five subsidiaries of the Company. The increase in the appraisal values of these subsidiaries as compared to their book values was mainly due to the increase in appraisal values of intangible assets (i.e. intellectual properties of pharmaceutical products), which was assessed by Carea using income approach. The forecasted income was determined by the estimated number of target users and estimated selling price of such products (which was made reference to the selling price of comparable products or selling price of such products in centralised procurement). The forecasted expenses were mainly determined by cost of the manufacturing and distribution of such products as estimated or incurred by the Company. In respect of discount rates, similar methodology of the determination of discount rate of the Company was adopted for the determination of discount rate.

The Company's R&D costs of Donganqiang, Rongliflozin and Liraglutide was included in the non-operating assets, and the valuation of which was adopted by the income approach using the embedded decision tree model. The decision tree is a kind of value estimation based on the probability of success, with which additional consideration is given to new drugs at all stages (clinical phase I/II/III and registration) based on estimated value of R&D result under the assumption that the R&D for the new drug is completed and the drug is successfully launched.

The value of the Company's holding in Sunshine Lake Pharma was also considered in the Company's non-operating assets.

For our due diligence purpose, we also obtained a sensitivity analysis on the valuation of the Company conducted by Carea. Based on the sensitivity analysis, should (i) the revenue increase/decrease by 5%, with other factors remained unchanged, the valuation of the Company would increase/decrease by approximately 20%; (ii) the operating costs increase/decrease by 5%, with other factors remained unchanged, the valuation of the Company would increase/decrease by approximately 4%; and (iii) the discount rate decrease/increase by 1%, with other factors remained unchanged, the valuation of the Company would increase by approximately 8% or decrease by approximately 7%.

With reference to the Valuation Report, the appraisal value of the Company as at the Valuation Date was approximately RMB11,740.2 million. For our due diligence purpose, we also cross-checked the value of the Company in the aspect of the Company's market capitalisation as at the Valuation Date. Given that the market capitalisation of the Company as at the Valuation Date was approximately HK$3,830 million (calculated based on the number of Shares and the closing price of H Shares as at the Valuation Date), it indicates the valuation of the Company was not underestimated in the aspect of closing price of the H Shares. Therefore, such estimation is in favour of the Company (as vendor for the sales of Sunshine Lake Pharma, which owned the equity interests of the Company).

Having considered the aforementioned and during our discussion with Carea, we have not identified any major factor which caused us to doubt the reasonableness of the assumption used in the valuation of the Company.

The valuation of Sunshine Lake Pharma's investment in Company was then determined with reference to the valuation of the Company of approximately RMB11,740.2 million as at the Valuation Date and the 25.705% equity interests of the Company directly owned by Sunshine Lake Pharma.

HEC HK

As advised by the Director, HEC HK is an investment holding company with principal investment being approximately 25.705% equity interest in the Company.

In respect of the valuation of Sunshine Lake Pharma's investment in HEC HK, we enquired into Carea and understood that the significant increase in the book value of approximately RMB1,901.1 million to approximately RMB3,018.0 million was mainly attributed by the appraisal value of the Company, which was determined with reference to the valuation of the Company of approximately RMB11,740.2 million as at the Valuation Date and the 25.705% equity interests of the Company directly owned by HEC HK.

B.2 Intangible assets

The book value and appraisal value of Sunshine Lake Pharma's intangible assets were RMB15.2 million and RMB19,943.4 million respectively as at the Valuation Date. We understood that the significant increase in the appraisal value of Sunshine Lake Pharma's intangible assets was mainly due to the identification of off-book R&D projects, comprising (i) R&D project of generic drugs; (ii) R&D projects of new drugs and biological drugs; (iii) external transfer projects; and (iv) suspended R&D projects.

B.2.1 R&D project of generic drugs

The R&D projects of generic drugs comprised (i) generic drug projects with partial equity transfer; and (ii) generic drug projects with entire equity interest.

Generic drug projects with partial equity transfer: generic drug projects with partial equity transfer referred to the 33 generic drugs which were transferred or will be transferred to the Company pursuant to (i) the agreement between the Company and Sunshine Lake Pharma dated 10 July 2018 (for six generic drugs, details of which were set out in the Company's circular dated 30 July 2018); and (ii) the agreement between the Company and Sunshine Lake Pharma dated 25 February 2019 (for 27 generic drugs, details of which were set out in the Company's circular dated 9 April 2019).

Pursuant to the abovementioned two agreements and as confirmed by the Directors, Sunshine Lake Pharma agreed to transfer the intellectual property rights, industrial property rights and ownership rights in relation to the 33 generic drugs within the PRC. Therefore, Sunshine Lake Pharma owns the intellectual property rights, industrial property rights and ownership rights in relation to the 33 generic drugs outside the PRC. Having considered that (i) the aforesaid 33 generic drugs (with large fluctuation in sales volume) have no material technical advantages as compared to similar products in overseas markets and the future market (oversea market) of the products that have been approved is uncertain and therefore the income approach is not appropriate for the valuation; (ii) Carea did not identify comparable references and transaction cases similar to the appraised assets in the market and therefore the market approach is not appropriate for the valuation, Carea cross-checked the R&D expenses of generic drug projects with partial equity transfer, and adopted the verified R&D expenses as the valuation.

As the incurred R&D expenses of generic drug projects were available to Carea while both income approach and market approach were not applicable for the purpose of assessing the appraisal value of the generic drug project with partial equity transfer, we consider the use of asset-based approach is appropriate.

Based on the verification works performed by Carea and the methodology adopted in determining the appraisal value of the generic drug projects with partial equity transfer, we are of the view that the approach adopted by Carea is fair and reasonable and we do not doubt the result of the valuation on the generic drug projects with partial equity transfer.

Generic drug projects with entire equity interest: For generic drug project with entire equity interest, we discussed with Carea and understood that Carea adopted asset-based approach for the valuation of generic drug projects with entire equity interest after considering the following factors:

- there were a large number of pharmaceutical enterprises which were engaged in the manufacturing and the R&D of generic drugs and therefore the market share for such generic drugs of Sunshine Lake Pharma and the selling price of such generic drugs are uncertain and therefore the income approach would be inappropriate; and

- Carea did not identify comparable references and transaction cases similar to the drug assets in the market and therefore the market approach would be inappropriate.

We considered the use of asset-based approach is appropriate for the valuation of generic drug projects with entire equity interest. Replacement cost was considered in the valuation of generic drug projects with entire equity interest which Carea took into account the cost that would incur to develop the same drug assets to its current status.

Based on the above, we are of the view that the approach adopted by Carea is fair and reasonable and we do not doubt the valuation result of the generic drug projects with entire equity interest.

B.2.2 R&D projects of new drugs and biological drugs

The R&D projects of new drugs and biological drugs comprised of (i) new drugs and biological drugs under research that have not entered clinical stage; and (ii) new drugs and biological drugs that have entered clinical stage.

For our due diligence purpose, we conducted the following works in respect of the R&D projects of new drugs and biological drugs that have not entered clinical stage:

- We noted from the Valuation Report that Carea adopted cost approach to assess the appraisal value of R&D projects of new drugs and biological drugs that have not entered clinical stage. Having considered that the R&D of such drug assets were at the early stage and there are uncertainty on the successful development of such drugs, therefore we concur with Carea in respect of the valuation approach.

- We noted that Carea adopted the replacement costs method in determining the appraisal value of R&D projects of new drugs and biological drugs that have not entered into clinical stage, which primarily consider the R&D costs of such drug assets (such as material costs, labour costs, and patent application fees), costs of capital and reasonable profit margins. We noted that Carea made reference to the historical R&D costs of the relevant drug assets and the historical producer price index of the pharmaceutical industry to determine the R&D costs that would be incurred to redevelop the same drug asset; while the costs of capital were determined by Carea with reference to the then prevailing one-year loan prime rate as published by The People's Bank of China. To assess the fairness and reasonableness of the replacement cost of these drug assets, we obtained and cross-checked the data referenced by Carea and noted that the data applied in the calculation of the replacement costs were consistent as the aforementioned.

- In respect of the reasonable profit margins adopted, we noted that Carea made reference to the average profit margins of A-shares listed pharmaceutical companies for the latest three financial year. To assess the fairness and reasonableness of such profit margins adopted, we cross-checked the profit margins of such referenced companies and noted that the average of which were consistent with those adopted in the valuation.

Based on the aforesaid, we are of the view that the valuation procedures (including the valuation methodology) are fair and reasonable.

For R&D projects of new drugs and biological drugs that have entered clinical stage, as Sunshine Lake Pharma can reasonably predict the future income based on market conditions, industry competition, the characteristics of the products under R&D and the expenses of the same industry, income approach embedded in the decision tree model is therefore adopted for valuation of such drugs.

For our due diligence purpose, we conducted following works:

- We obtained and reviewed the spreadsheets of the valuation of the R&D projects of new drugs and biological drugs that have entered clinical stage.

- We discussed with Carea and understood that the future income of such new drugs were determined with reference to (i) forecasted number of target users of such new drugs; and (ii) forecasted income to be generated per user, both of which were determined with reference to historical number of patients who have been diagnosed with the same disease, the forecasted growth rate in the number of patients as published by relevant data and analytics providers (such as Frost & Sullivan (based on the public information, Frost & Sullivan is a business consulting firm founded in 1961 that offers market research and analysis, growth strategy consulting, and corporate trainings to its clients), Informa Pharma Intelligence (based on the public information, Informa Pharma Intelligence is a provider of drug, device, company, clinical trial and market intelligence in the pharmaceutical and MedTech markets) and GlobalData Plc (based on public information, GlobalData Plc is a data analytics and consulting company that provides data and analytics on various industry, including pharmaceutical industry) and historical costs incurred by patients for the treatment of such disease by using drugs with similar treatment effect as the relevant drug assets.

- In respect of the future cost of such new drugs, Carea made reference to cost margins of companies which engaged in the research and development of pharmaceutical products and listed on the PRC's stock exchanges and were exhaustive based on their selection criteria as confirmed by Carea. To assess the fairness and reasonableness of such margins adopted, we cross-checked the margins of such referenced companies and noted that the average of which were consistent with those adopted in the valuation. Based on our due diligence performed on the cost margins, we are of the view that the cost margins adopted in formulating the future cost are fair and representative.

- In respect of the discount rates ranged from 11.71% to 13.91% adopted for the valuation of R&D projects of new drugs and biological drugs that have entered clinical stage, we noted that Carea adopted CAPM to assess the cost of equity of the relevant drug assets. In arriving at the cost of equity, Carea took into account a number of factors including (1) risk-free rate; (2) market risk premium; (3) beta; and (4) specific risk premium.

  For our due diligence purpose, we conducted the following works on the discount rates adopted:

  — We searched through the internet and noted that the CAPM technique is widely adopted for the purpose of estimating the required rate of return on equity. We also noted the use of CAPM in calculating the required rate of return on equity of intangible assets from other valuation reports as made publicly available by listed companies;

— We noted that the risk-free rate adopted by Carea was determined with reference to the return yield of government bonds with residual maturity of more than ten years as at the Valuation Date. We understood from Carea that the use of government bonds yield to determine the risk-free rate was in accordance to the Expert Guideline No. 12 as promulgated by the China Appraisal Society and is a common practice among the valuation industry;

— We obtained the list of comparable companies used for the calculation of the unlevered beta. We noted from the Valuation Report that Carea had adopted the following criteria in selecting the comparable companies: (1) A-shares listed companies in the PRC with shares listed on the relevant stock exchange for more than five years; and (2) companies engaged in the development, manufacturing and sales of pharmaceutical products in the PRC which recorded profits for the latest five financial years. We understood from Carea that the list of comparable companies is exhaustive based on their selection criteria. Despite that the aforesaid criteria are similar to those for the calculation of the beta adopted in determining the Company's discount rate, given that the underlying assets are new drugs and biological drugs that have entered clinical stage, the profitability of which are expected to be higher than generic drugs (i.e. those manufactured by the Company), we considered the list of comparable companies (which recorded profits for the latest five financial years) is fair and representative for the calculation of beta. We also cross-checked the beta of the selected comparable companies through Wind Financial Terminal and noted that the beta adopted by Carea do not deviate from our findings. The beta adopted by Carea is further calculated based on the unlevered beta and the average debt to equity ratio of the comparable companies; and

— We noted that Carea adopted the market risk premium of 7.12%, which was determined with reference to the China Securities Index 300 yield indicator. We also noted from the Expert Guideline No. 12 that market price premium can be determined with reference to (1) indices of securities market in the PRC; (2) the premium of other mature capital market; or (3) the statistics as published by relevant experts or professional bodies. Given (1) the nature of market risk premium as aforementioned; (2) the expected life of the relevant drug assets were mostly 20 years (with the exception of a particular drug asset as detailed below), which were considered to be long term (i.e. same as the Company); (3) that the new drugs and biological drugs that have entered clinical stage are expected to be sold in PRC market primarily; and (4) there are other factors specific to the underlying drug assets, such as the beta and specific risk premium, in determining the discount rate, we do not doubt the reasonableness of referencing the China Securities Index 300 yield indicator in determining the market risk premium; and adopting the same market risk premium as that in determining the Company's discount rate.

In addition, we noted Carea adopted the cost of debt of 4.30%, which were determined with reference to the long-term loan prime rate as published by the People's Bank of China.

Based on the aforesaid, we consider the discount rate adopted by Carea is fair and reasonable.

- In respect of the forecast period, we understood from Carea that they mainly considered the expected life of the relevant drug assets of 20 year, which was determined with reference to the patent protection period 20 years, except for one drug asset where the treatment success rate of the relevant disease was relatively high and the World Health Organisation targets to substantially reduce the number of patients by 2030, in which case a forecast period of 10 years was adopted.

- Carea adopted the decision-making tree to estimate the future income of the relevant drugs based on the probability of successfully progressing through stages (clinical Phase I/II/III and registration) as set out in the "Clinical Development Success Rates and Contributing Factors 2011–2020" (the "**Study**") jointly published by the Biotechnology Innovation Organisation ("**BIO**"), Informa Pharma Intelligence and QLS Advisors LLC (together, the "**Joint Publishers**").

  We noted from the respective website of Joint Publishers that:

  (1) BIO is the world's largest advocacy association representing member companies, state biotechnology groups, academic and research institutions, and related organisations across the United States of America and in over 30 countries;

  (2) Informa Pharma Intelligence is the world leading provider of drug, device, company, clinical trial and market intelligence in the pharmaceutical and MedTech markets

and their data is drawn from over 20,000 companies, over 248,000 clinical trials in 175 countries and over 65,000 drugs for over 1,400 diseases; and

(3) QLS Advisors LLC is a research-driven advisory firm dedicated to providing drug and device developers, investors, and other healthcare stakeholders with decision tools for allocating capital to portfolio of biopharma assets.

As noted from the Study, the Study covers the phase transition success rate by disease, likelihood of approval by disease, factors which led to clinical success and drug development timeline based on total of 12,728 clinical and regulatory phase transitions record and analyzed over the period from 2021 to 2020 across 1,779 companies in the database of Informa Pharma Intelligence.

Furthermore, we also understood from Carea that (i) the cost incurred for the research and development of new drugs and biological drugs that have entered clinical stage may not reflect the value of the relevant drug assets as the success rate of commercialising such drugs are significantly higher than those that have not entered clinical stage; and (ii) there are lack of comparable transactions for similar drug assets with information available to the public, as such, we did not cross-check the valuation result of new drugs and biological drugs that have entered clinical stage.

In light of the above, in particular the background of Joint Publishers and the scope of data covered by the Study, we do not doubt the reliability of the Study.

Based on the aforesaid, we are of the view that the valuation procedures (including the valuation methodology) are fair and reasonable.

B.2.3 External transfer projects

Based on our discussion with Carea, we understood that Carea considered and valued five external transfer projects, including Dongningan, Dongjiansheng, Dongjianan, Rongliflozin and Liraglutide.

As advised by the Directors, Sunshine Lake Pharma's transfer of Dongningan, Dongjiansheng and Dongjianan were non-related party transfer. According to the transfer agreements for the aforesaid three drugs, the progress and amount of project transfer payment are closely related to the future R&D progress and status of the project, corresponding to the future income of drugs. Carea considered that the project is in the early stage of transfer on the Valuation Date, the subsequent research and development is mainly responsible by the transferee and the future R&D and drug sales of the transferee are highly uncertain, the asset-based approach is adopted for this valuation which Carea verified the R&D costs incurred by Sunshine Lake Pharma for the relevant drug assets up to the Valuation Date. For Sunshine Lake Pharma's transfer of Rongliflozin and Liraglutide, the valuation amount is determined based on the subsequent contractual rights available.

Based on the verification works performed by Carea and the methodology adopted in determining the appraisal value of the external transfer projects, we are of the view that the approach adopted by Carea is fair and reasonable and we do not doubt the result of the valuation on the external transfer projects.

B.2.4 Suspended R&D projects

For the suspended R&D projects, the valuation is determined based on the actual investment cost according to the reasons for suspension of each project, whether it is possible to resume afterwards, and whether the R&D achievements can be transferred. We enquired into Carea and understood that Carea had verified the actual investment cost for the suspended R&D projects incurred by Sunshine Lake Pharma. For our due diligence purpose, we obtained and reviewed the cost of relevant suspended R&D projects, the sum of which is the valuation of the suspended R&D projects.

We further enquired into the Directors and we were advised that the suspended R&D projects were suspended primarily due to temporary suspension or delay in the review process by relevant regulatory authorities, subject to the resumption of the review process by the relevant authorities, and these suspended R&D projects may be resumed in the future, and the relevant R&D achievement may be transferred. Having considered the aforesaid and that the uncertainty regarding the resumption of these projects as at the Valuation Date, we do not doubt the reasonableness of adopting the incurred R&D costs to determine to appraisal value of the suspended R&D projects.

Based on the verification works performed by Carea and the methodology adopted in determining the appraisal value of the suspended R&D projects, we are of the view that the approach adopted by Carea is fair and reasonable and we do not doubt the result of the valuation on the suspended R&D projects.

Based on the above and information/documents (e.g. explanation to key assumptions, factors, calculations, etc.) in respect of the valuations of intangible assets as provided to us by Carea/the Company and having considered Carea's qualification and experience, we did not identify any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the valuations for the intangible assets.

(C) Current liabilities: the book value and appraisal value of Sunshine Lake Pharma's current liabilities were approximately RMB4,130.8 million and RMB3,601.5 million respectively as at the Valuation Date. The decrease in appraisal value of current liabilities as compared to its book value was primarily due to the decrease in contract liabilities, which was due to the subsequent obligations agreed in the contract and the relevant tax payment obligations between Sunshine Lake Pharma and the Company.

(D) Non-current liabilities: the book value and appraisal value of Sunshine Lake Pharma's non-current liabilities were approximately RMB2,282.2 million and RMB2,282.4 million. There is no material difference between the book value and appraisal value of the non-current liabilities.

The valuation of Sunshine Lake Pharma as at the Valuation Date, being approximately RMB23,325,289,200, was calculated by the appraisal value of its total assets minus total liabilities.

Based on the above and information/documents (e.g. explanation to key assumptions, factors, calculations, etc.) in respect of the Valuation as provided to us by Carea/Company and having considered Carea's qualification and experience, we did not identify any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted in the Valuation.

As the consideration represented approximately 9.9134% of the Valuation of approximately RMB23,325,289,200, we are of the view that the consideration of the Disposal is fair and reasonable.

Completion

The Parties shall complete the registration of industrial and commercial changes in respect of the Equity Transfer within ten (10) working days from the effective date of the Equity Transfer Agreement with the market supervision and administration department. The date of completion of the industrial and commercial registration shall be the completion date.

Termination

The Equity Transfer Agreement may be terminated in the following ways:

(i) The Parties may agree in writing after negotiation;

(ii) If any event of default occurs, and the defaulting party fails to provide adequate remedies for its breach within fifteen (15) calendar days upon receiving written notice from the non-defaulting party requesting the defaulting party to remedy its breach, or the circumstance of default continues to exist, the non-defaulting party has the right to send a written notice to the defaulting party to cancel or terminate the Equity Transfer Agreement. The Equity Transfer Agreement shall be rescinded and terminated once the written notice of rescission and termination of the Equity Transfer Agreement is delivered to the defaulting party; or

(iii) If any party substantially or materially violates its undertakings, representations and warranties or other obligations in the Equity Transfer Agreement, regardless of whether or not all necessary approvals thereunder has been obtained and the payment of the Consideration has been made, the non-defaulting party has the right to terminate the Equity Transfer Agreement unconditionally and unilaterally by notice in writing, and requires the defaulting party to assume its liability for breach of contract in accordance with such requirements thereunder.

Having reviewed and considered the terms of the Equity Transfer Agreement in particular the key terms as listed above (including the consideration being fair and reasonable; and no abnormal term observed), we are of the view that the terms of the Disposal are on normal commercial terms and are fair and reasonable.

Possible financial effects of the Disposal

With reference to the Board Letter, following the completion of the Disposal, the Company will no longer hold any interest in Sunshine Lake Pharma. As the Company only held approximately 9.9134% equity interest in Sunshine Lake Pharma as at the Latest Practicable Date, the financial results of Sunshine Lake Pharma was not consolidated in the Company's consolidated financial statements. Accordingly, save as the expected gain on disposal arising from the Disposal, the Directors are of the view that the Disposal will not have any material impact on the Company's financial position.

Following the completion of the Disposal, it is estimated that the Company will realize a profit of approximately RMB438,425,263 from the Disposal, being the difference between the consideration of RMB2,312,319,650 and the sum of (i) the book value of the Group's interest in Sunshine Lake Pharma as at 1 January 2022 in the amount of approximately RMB1,789,621,319; and (ii) the estimated amount of RMB84,273,068 of other expenses (including stamp duty, income tax and service fees for professional parties and etc.) that may be payable by the Company as a result of the Disposal.

RECOMMENDATION

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

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

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

* *For identification purpose only*

Carea Assets Appraisal Co., Ltd. (開元資產評估有限公司) (now known as Beijing KYSIN Assets Appraisal Co., Ltd (北京坤元至誠資產評估有限公司)) has been engaged by YiChang HEC ChangJiang Pharmaceutical Co., Ltd. ("**HEC Pharm**") to appraise the market value of the total shareholders' equity interest of Sunshine Lake Pharma Co., Ltd. ("**Sunshine Lake Pharma**" or the "**Company**") involved in the equity interest in Sunshine Lake Pharma Co., Ltd. which is proposed to be disposed by YiChang HEC ChangJiang Pharmaceutical Co., Ltd. as at 31 October 2022, being the valuation benchmark date. The main contents of the asset valuation report are summarised as follows:

1. PURPOSE OF VALUATION

As YiChang HEC ChangJiang Pharmaceutical Co., Ltd. intends to dispose of the equity interest in Sunshine Lake Pharma Co., Ltd., Carea Assets Appraisal Co., Ltd. has been engaged by YiChang HEC ChangJiang Pharmaceutical Co., Ltd. to appraise the market value of the total shareholders' equity interest of Sunshine Lake Pharma Co., Ltd. involved in the above economic activity as a reference for the value of such economic activity.

2. SUBJECT AND SCOPE OF VALUATION

The subject of valuation is the market value of the total shareholders' equity interest of Sunshine Lake Pharma Co., Ltd. as at the valuation benchmark date. The scope of valuation is the unaudited total assets and liabilities of Sunshine Lake Pharma Co., Ltd. as at the valuation benchmark date (subject to the asset declaration list provided by Sunshine Lake Pharma Co., Ltd.).

3. TYPE OF VALUE

The type of value of the valuation conclusion in the report is market value.

4. VALUATION BENCHMARK DATE

The valuation benchmark date is 31 October 2022.

5. VALUATION METHODOLOGY

The valuation method is the asset-based approach, and the valuation results of the asset-based approach are taken as the valuation conclusion.

6. VALUATION CONCLUSION

After adopting the asset-based approach, the market value of the total shareholders' equity interest of Sunshine Lake Pharma Co., Ltd. as at 31 October 2022, the valuation benchmark date, was **RMB23,325,289,200 (RMB Twenty-Three Billion, Three Hundred and Twenty-Five Million, Two Hundred and Eighty-Nine Thousand, Two Hundred).**

According to the current regulations, the validity period of the valuation conclusion of this asset valuation report is one year, which is calculated from the valuation benchmark date.

Users of the asset valuation report should fully consider and pay attention to the assumptions, restrictions and descriptions of special matters and their impact on the valuation conclusion set out in this asset valuation report.

7. SPECIAL MATTERS AFFECTING THE VALUATION CONCLUSION

(1) For the defects of the enterprise that may affect the appraised value of assets, the asset appraisal institution and the asset appraisal professionals shall not assume relevant responsibilities if they have not been given special explanations at the time of the engagement from the enterprise and the asset appraisal professionals have performed the valuation procedures and are still unable to be informed of.

(2) The information provided by Sunshine Lake Pharma Co., Ltd. in relation to the valuation, such as the behavioural documents, business licences, title certificates, financial statements and accounting evidence, is the basis for the preparation of this report. The principal and relevant parties shall be responsible for the authenticity, legality and completeness of the information provided.

(3) Asset appraisal professionals have carried out necessary verification work on the property rights of the assets within the scope of engagement, and fully disclosed the issues identified in the property rights of the assets as far as possible. There is no dispute on the property rights found in this valuation. However, the valuation report is to report a professional valuation opinion on the valuation subject and does not have the legal nature of the ownership certificate. Therefore, this report cannot be used as the property ownership certificate.

(4) Incomplete or cloudy assets ownership information

1. Buildings

(1) As of the valuation benchmark date, Sunshine Lake Pharma has applied for the valuation of 2 buildings which have not obtained title certificates, with total building area of 5,682.43m^2;

(2) As at the valuation benchmark date, a total of 17 buildings reported for valuation by YiChang HEC ChangJiang Pharmaceutical Co., Ltd., an associated company of Sunshine Lake Pharma, have not obtained title certificates, with gross floor area of 93,548.9 m^2;

For the above-mentioned buildings without certificates, Sunshine Lake Pharma Co., Ltd. and YiChang HEC ChangJiang Pharmaceutical Co., Ltd. have declared the area of the buildings, and have undertaken that the Company has the ownership of the buildings without certificates, and there is no property dispute with any third party. The Company shall bear all legal consequences arising from the property dispute. The valuers confirm the legal title and gross floor area of the buildings based on the relevant information provided by the appraised entity, without taking into account the impact on the valuation conclusion, such as the possible property disputes and the inconsistency between the reported area and the final certificate area.

2. Machinery and equipment

(1) According to the information provided by the appraised entity, the original book value and net book value of a small vehicle (Toyota GTM7240G) included in the scope of this valuation were RMB267,937.00 and RMB13,396.85, respectively. The vehicle was purchased in 2007. The vehicle is for official use by an external expert. Currently, the external expert has not been engaged by the Company. Due to historical reasons, the Company has lost control over the vehicle.

(2) According to the information provided by the appraised entity, the auxiliary facilities in the structure, the waste gas treatment project of the biological building and the steam, water and gas pipeline project of the biological building were included in the scope of this valuation, with the original book value of RMB8,930,155.28 and the net book value of RMB5,548,717.69. Due to lack of relevant documents such as the settlement of the construction of the structure at an earlier time of acquisition and construction, it is impossible to accurately refer to the information such as the volume of construction and the composition of materials of the structure.

(3) The P2 Laboratory and Jiangxi GLP Bioanalytical Laboratory included in the structures within the scope of this valuation have an original book value of RMB1,892,854.39 and a net book value of RMB1,544,106.73. Based on the understanding from relevant personnel of the enterprise, the assets are those invested by the Company and other entities to jointly establish laboratories. Due to the time of acquisition and construction took place long time ago, the Company has no personnel who has specific knowledge of the detailed conditions of the assets and cannot provide relevant information.

The above-mentioned relevant assets involved in this valuation are not included in the scope of valuation.

3. Intangible assets — other intangible assets

The two patent rights filed by the Company are held by North & South Brother Pharmacy Investment Company Limited (南北兄弟藥業投資有限公司). As at the valuation benchmark date, the above patent rights have been transferred to Sunshine Lake Pharma Co., Ltd. at nil consideration and are in the process of changing the right holder.

(5) Explanation on restricted valuation procedures

Due to the impact of the global COVID-19 pandemic, this valuation failed to conduct on-site investigation on overseas assets, and adopted video, e-mail, photo and other means to conduct remote review and verification of the legal ownership status and information of the valuation subject and the assets involved. Based on the information provided by the principal and the appraised entity, no matters that have a significant impact on the valuation conclusion are found, but the users of the asset valuation report are still required to pay special attention to the failure to perform the on-site inspection procedures.

(6) Explanations on mortgage, guarantee, lease and contingent liabilities (contingent assets)

1. Pledge

(1) Sunshine Lake Pharma

As of the valuation benchmark date, 5 buildings with the real estate ownership certificate number of Yue Fang Di Quan Zheng No.1700356451, etc. have been pledged to Agricultural Bank of China Limited (Dongguan Chang'an Branch), with a total area of 15,572.55 m^2.

(2) YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

As at the valuation benchmark date, the Company had three asset pledges, involving total land area of 98,838.01 m^2 and the relevant building area of 40,759.15 m^2 in total.

The impact of the pledges on the valuation conclusion was not considered in this valuation.

2. Guarantee

(1) Short-term borrowings

Short-term borrowings involved a total of 4 guarantees for a total amount of RMB380,000,000.

(2) Notes payable

Notes payable involved a total of 2 guarantees for a total amount of RMB180,099,000.

(3) Long-term borrowings

Long-term borrowings involved a total of 7 guarantees for a total amount of RMB2,030,500,000.

(4) Long-term payables

Long-term payables involved a total of one guarantee for a total amount of RMB27,049,900.

(5) External guarantees

① Sunshine Lake Pharma

As at the valuation benchmark date, the Company had one external guarantee with guarantee balances of RMB270,000,000 in total.

② YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

According to the relevant information provided by HEC Pharm, HEC Pharm provides joint liability guarantee for the long-term borrowings borrowed by Yichang HEC Pharmaceutical Manufacturing Co., Ltd. from Industrial and Commercial Bank of China Limited (Yidu Branch) and Agricultural Bank of China Limited (Yidu Branch).

This valuation does not take into account the impact of the above guarantees on the valuation conclusion.

3. Leasing

As at the valuation benchmark date, the Company had the following leases, details of which are set out in the table below:

(1) The parent company has 9 property leasings, with leased area of 65,430.62 m^2 in total.

(2) A total of 20 property leases of subsidiaries

(7) This valuation conclusion has not taken into account the possible changes in tax payment obligations resulting from the increase or decrease of the appraised value.

(8) The valuation has not taken into account the impacts of minority interest discount, controlling interest premium and liquidity on the valuation conclusion.

(9) Other matters requiring explanation

1. Significant use of expert work and relevant reports

(1) The financial data of HEC Pharm for 2020 and 2021 were audited by KPMG Huazhen LLP, which issued the audit report (KPMG Huazhen Shen Zi No. 2203366) and the audit report (KPMG Huazhen Shen Zi No. 2102007). The financial data for January to October 2022 has not been audited, and all assets and liabilities included in the scope of this valuation are reported data of Sunshine Lake Pharma.

(2) As of the Valuation Benchmark Date, the Company has obtained new drugs and biological status with clinical approvals as follows:

No.	Name	R & D stage	Indication(s)
1	Dongningguan	Clinical Phase Ⅲ	Esophageal Cancer
2	Dong Jiandi	Clinical Phase Ⅱ	Idiopathic Pulmonary Fibrosis
3	Donganrui	Clinical Phase I	Hepatitis B
4	Dongan En	Clinical Phase I	Influenza
5	Dong Tong Shen	Clinical Phase Ⅱ/Ⅲ	Depression
6	Dong Jianshun	Clinical Phase I	Gout
7	Dongningchun	Clinical Phase III	Acute Myeloid Leukaemia
8	Dongningben	Clinical Phase I	Hematologic Tumors
9	Dongtong Rui	Completed Clinical Phase I	Insomnia
10	Dong Andi	Clinical Phase III	Hepatitis B
11	Dongningdi	Clinical Phase Ⅱ	Lung cancer, liver cancer, MET-14 skipping mutation lung cancer
12	Dong Antai	Clinical Phase Ⅲ	Hepatitis C
13	Dongjianyuan	Clinical Phase Ⅱ	NASH (Non-Alcoholic Steatohepatitis)
15	Dong Jian Qiang	Clinical Phase I	Heart failure, Pulmonary Hypertension
16	Dongtong Run	Clinical Phase I	Parkinson's syndrome
17	Dong Jianhua	Clinical Phase I	Diabetes Nephropathy
18	Guang Jian Bao	Clinical Phase I	Type 2 Diabetes, NASH, Obesity
19	Guang Jian Da	Clinical Phase III	Diabetes
20	Guang Jian Cheng	Clinical Phase I	Type 2 Diabetes
21	Guang Jian You	Clinical Phase I	Diabetes
22	Dongningda	Clinical Phase I	Tumors (RET-specific tumors)
23	Dong Tong Shun	Clinical Phase I	Headache
24	Dong Jiandi	Clinical Phase II	PF-ILD (different indications)

2. Sunshine Lake Pharma has a total of 26 subsidiaries, including 21 wholly-owned subsidiaries and 5 holding subsidiaries (including direct or indirect holding), of which 8 are first-tier subsidiaries and 18 are second-tier subsidiaries.

Among the 26 companies mentioned above, 6 subsidiaries did not carry out actual operations, had no business operations, and did not generated relevant financial data; 18 subsidiaries have not actually paid their registered capital.

The long-term equity investment is evaluated in the following situations:

(1) For subsidiaries under normal operation, the valuation professionals conducted an overall asset valuation and arrived at the net asset value of the investee company, which was estimated in the following circumstances:

① Long-term equity investment unit is under normal operation and paid up, and the appraised amount is determined by multiplying the overall appraised value of the long-term equity investment unit by the shareholding ratio, and the appraised amount is limited to zero;

② Long-term equity investment unit is under normal operation but not paid up. If the overall appraised amount of the long-term equity investment unit is positive, the appraised amount is the overall appraised amount of the long-term equity investment unit multiplied by the subscribed shareholding ratio; If the overall appraised amount of the long-term investment unit is negative, it is evaluated as zero, and the appraised amount of estimated liabilities are recognised in the estimated liabilities based on the absolute value of the appraised amount of the long-term equity investment unit multiplied by the shareholding ratio and the registered capital actually paid, whichever is lower.

③ If the overall valuation of the long-term equity investment unit is negative (including being under normal operation and paid up, and being under normal operation but not paid up), the appraised amount is recognised by multiplying the carrying value by the repayment rate for the current receivables.

(2) For those who have not carried out actual operations, have no business operations, and did not generate relevant financial data, they have not been individually assessed.

I. APPRAISAL BASIS

The appraisal basis followed in this asset appraisal mainly includes the basis of economic behaviours, the basis of laws and regulations, the basis of appraisal standards, the basis of asset ownership, and the basis of pricing and other reference materials used in appraisal and estimation. Details are as follows:

(1) Basis of Economic Behaviours

The resolution of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. on the Engagement of Carea Assets Appraisal Co., Ltd. to Conduct Asset Appraisal for the Sale Shares.

(2) Laws and Regulations Basis

1. Asset Appraisal Law of the People's Republic of China (Order No. 46 of the President of the People's Republic of China);

2. Company Law of the People's Republic of China (4th Revision at the 6th Meeting of the Standing Committee of the 13th National People's Congress on 26 October 2018);

3. Securities Law of the People's Republic of China (2nd Revision at the 15th Meeting of the Standing Committee of the 13th National People's Congress on 28 December 2019);

4. Civil Code of the People's Republic of China (effective from 1 January 2021);

5. Land Administration Law of the People's Republic of China (as revised at the 12th meeting of the Standing Committee of the 13th National People's Congress on 26 August 2019);

6. Urban Real Estate Administration Law of the People's Republic of China (Decision on Amending the Land Administration Law of the People's Republic of China and the Urban Real Estate Administration Law of the People's Republic of China at the 12th meeting of the Standing Committee of the 13th National People's Congress on 26 August 2019);

7. Enterprise Income Tax Law of the People's Republic of China (Revised at the 7th Meeting of the Standing Committee of the 13th National People's Congress on 29 December 2018);

8. Drug Administration Law of the People's Republic of China (Revised and adopted at the 12th meeting of the Standing Committee of the 13th National People's Congress on 26 August 2019);

9. Interim Regulations of the People's Republic of China on Value-added Tax (Order No. 691 of the State Council);

10. Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax (Order No. 50 of the Ministry of Finance and the State Administration of Taxation, as amended by Order No. 65 of the Ministry of Finance and the State Administration of Taxation);

11. Notice of the Ministry of Finance and the State Administration of Taxation on Comprehensively Implementing the Pilot Program of Replacing Business Tax with Valued-Added Tax (No. 36 [2016] of the Ministry of Finance and the State Administration of Taxation);

12. Announcement on Relevant Policies for Deepening the VAT Reform (Announcement No. 39 of 2019 of the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs);

13. Patent Law of the People's Republic of China (Decision on Revising the Patent Law of the People's Republic of China at the 22nd meeting of the Standing Committee of the 13th National People's Congress on 17 October 2020);

14. Trademark Law of the People's Republic of China (Revised at the 4th meeting of the 10th session of the Standing Committee of the 13th National People's Congress on 23 April 2019);

15. Guidelines for Asset Appraisal of Intellectual Property (No. 44 (2017) of the China Appraisal Society).

(3) Basis of Appraisal Standards

1. Standards for the Assets Appraisal (No. 43 [2017] of the Ministry of Finance);

2. Professional Ethical Standards for Asset Appraisal (No. 30 [2017] of the China Appraisal Society);

3. Practice Guidelines for Asset Appraisal-Asset Valuation Procedures (No. 36 [2018] of the China Appraisal Society);

4. Practice Guidelines for Asset Valuation — Asset Valuation Report (No. 35 [2018] of the China Appraisal Society);

5. Practice Guidelines for Asset Appraisal-Asset Valuation Engagement Contracts (No. 33 [2017] of the China Appraisal Society);

6. Practice Guidelines for Asset Appraisal-Asset Valuation Files (No. 37 [2018] of the China Appraisal Society);

7. Practice Guidelines for Asset Appraisal-Use of Experts' Work and Related Reports (No. 35 [2017] of the China Appraisal Society);

8. Practice Guidelines for Asset Appraisal-Appraisal Methods (No. 35 [2019] of the China Appraisal Society);

9. Practice Guidelines for Asset Appraisal-Enterprise Value (No. 38 [2018] of the China Appraisal Society);

10. Practice Guidelines for Asset Appraisal-Intangible Assets (No. 37 [2017] of the China Appraisal Society);

11. Practice Guidelines for Asset Appraisal-Real Estate (No. 38 [2017] of the China Appraisal Society);

12. Practice Guidelines for Asset Appraisal-Machinery and Equipment (No. 39 [2017] of the China Appraisal Society);

13. Quality Control Guidelines for Business of Asset Appraisal Institutions (No. 46 [2017] of the China Appraisal Society);

14. Guiding Opinions on Types of Value under Asset Appraisal (No. 47 [2017] of the China Appraisal Society);

15. Guiding Opinions on Legal Ownership of Subject under Appraisal (No. 48 [2017] of the China Appraisal Society);

16. Guiding Opinions on Appraisal of Patent Assets (No. 49 [2017] of the China Appraisal Society);

17. Guiding Opinions on Appraisal of Trademark Assets (No. 51 [2017] of the China Appraisal Society).

(4) Asset Ownership Basis

1. Capital contribution contracts, articles of association and business licence of the company (photocopies);

2. State-owned Land Use Rights Certificates (or contract for assignment of the right to the use of state-owned land), building ownership certificates, real estate title certificates, patent certificates, trademark certificates, motor vehicle driving permits of the company;

3. Drug registration certificate and clinical trial approval of the company (photocopies);

4. Purchase invoices, contracts and relevant information of major assets of the company (photocopies);

5. Other relevant ownership basis.

(5) Pricing Basis and Other References

1. Statements of the appraised entity as at the Valuation Benchmark Date;

2. Statistics of the production and operation of the appraised entity in recent years, financial information and relevant information and documents provided by the clients and relevant parties from the Valuation Benchmark Date to the date of issuance of the report;

3. The project R & D progress, post-commercial revenue forecast data, future R & D expenditure forecast data provided by the appraised entities;

4. Project establishment information provided by the Company;

5. Consumption Quota for Housing Construction and Decoration Projects in Guangdong Province (2018);

6. Consumption Quota for General Installation Projects in Guangdong Province (2018);

7. Guangdong Province Structures Project Valuation Quota (2018);

8. Data from Guangdong Engineering Cost Information Website;

9. Information on similar project cost collected by the valuation professionals;

10. 2022 Mechanical and Electrical Products Price Information Inquiry System published by China Machine Press;

11. National Domestic and Imported Car Quotation (Monthly);

12. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (Order No. 12 [2012] of the Ministry of Commerce, the NDRC, the Ministry of Public Security and the Ministry of Environmental Protection) (implemented on 1 May 2013);

13. Vehicle Purchase Tax Law of the People's Republic of China (adopted at the 7th meeting of the Standing Committee of the 13th National People's Congress on 29 December 2018);

14. Information collected by valuers through on-site inspection and investigation;

15. Information on open market transactions collected by valuers through the Internet, telephone, etc.;

16. The interest rate and yield to maturity of treasury bonds, tax base and tax rate as at the Valuation Benchmark Date and the loan prime rate (LPR) published by the National Interbank Funding Centre as authorised by the People's Bank of China;

17. Historical and current price information provided by the appraised entity;

18. Macroeconomic analysis information, industry statistics and industry expert research reports;

19. wind Information Financial Terminal related information, such as comparable listed companies information, price index information;

20. ClinicalDevelopmentSuccessRates2011_2020;

21. Guidelines No. 10 for Asset Appraisal Experts — Reasonable Performance of Asset Appraisal Procedures during the COVID-19 Pandemic (No. 6 [2020] of the China Appraisal Society);

22. Other relevant references.

II. VALUATION METHODOLOGY

(I) Introduction to the basic valuation method

The basic methods for enterprise value appraisal mainly include income approach, market approach and asset-based approach.

1. Income approach

The income approach in the valuation of enterprise value refers to the valuation method that determines the value of the valuation target by capitalising or discounting the expected income. The specific methods commonly used include dividend discount method and cash flow discount method; dividend discount method refers to the specific method of discounting the expected dividends to determine the value of the valuation target, which is generally applicable to the valuation of the entire equity value of shareholders without control; cash flow discount method refers to the specific method of discounting the expected net cash flow to determine the value of the valuation target, including the enterprise free cash flow discount model and the equity free cash flow discount model.

2. Market approach

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

3. Asset-based approach

The asset-based approach in the valuation of enterprise value refers to the valuation method that determines the value of the valuation target by reasonably assessing the value of various assets and liabilities on and off the balance sheet of the appraised entity based on the balance sheet of the appraised entity as at the Valuation Benchmark Date.

(II) Selection of valuation methods

In performing the enterprise value appraisal business, the suitability of the three basic approaches, namely the income approach, the market approach and the cost approach (asset-based approach), shall be analysed based on the purpose of valuation, the subject of valuation, the type of value and the collection of information, in order to select the valuation approach. If different valuation methods are suitable for enterprise value appraisal, asset appraisal professionals shall adopt more than two valuation methods for appraisal. After analysis, if only one method can be adopted under the circumstances specified in the Practise Guidelines for Asset Valuation — Asset Valuation Methods, one method can be adopted for valuation.

1. Analysis on the applicability of valuation methods

(1) Income approach

① Pre-requisites for the application of income approach:

Ⅰ. The future income of the valuation target can be reasonably expected and measured in currency;

Ⅱ. The risks associated with the expected returns can be measured;

Ⅲ. The income period can be determined or reasonably expected.

② Analysis of applicability of income approach

Sunshine Lake Pharma is an innovative pharmaceutical R & D enterprise with R&D, pre-clinical and clinical development, drug registration, manufacturing and sales of small molecular innovative drugs, biopharmaceutical innovative drugs and generic drugs as its core business. Its pipeline includes multiple R & D projects such as new drugs, biosimilars and generic drugs. The pharmaceutical R & D industry is characterised by high investment, high returns and high risks, and the research direction and difficulties of each R & D project, the life cycle of drugs and operational risks vary greatly. The R & D expenditure invested and the economic returns generated by each R & D project cannot fully reflect the current and future R & D expenditure and the economic returns generated by the Company's overall R & D projects. The risks associated with the expected income of the valuation target are difficult to be measured, the income period is difficult to be determined or reasonably expected, therefore the income approach is not applicable to this valuation.

(2) *Market approach*

① Pre-requisites for the application of market approach:

I . Pre-requisites for the application of the market approach:

A. The comparable references of the valuation target have an open market and active trading;

B. The necessary information in relation to the transaction can be obtained.

II . The comparable references shall be selected based on the characteristics of the valuation target based on the following principles:

A. Select references that are identical or comparable to the valuation target in terms of trading markets;

B. Select an appropriate number of references that are the identical or comparable to the valuation target;

C. Select references that are identical or similar to the valuation target in terms of value influence factors;

D. Select references whose transaction time is close to the Valuation Benchmark Date;

E. Select references whose transaction type is suitable for the valuation purpose;

F. Select references that are normal or can be modified as normal transaction price.

② Analysis of applicability of market approach:

The market approach assesses the current fair market value of the valuation target by reference to the references in the real market. It has the characteristics of direct valuation angle and valuation method, intuitive valuation process, direct valuation data from the market, and strong support for valuation results. Among the listed companies in the same industry as the Company, there are fewer listed companies that are basically comparable to the Company and cannot meet the "comparable" requirements of the market approach for sufficient number of comparable enterprises, after comparing them with the valuation target based on their time of establishment, time of listing, scope of business, scale of enterprise, main products, business composition, operating indicators, business model, operation stage, financial data or transaction purpose, transaction time, transaction situation and transaction price of the transaction cases. Therefore, the market approach is not suitable for this valuation.

(3) *Asset-based approach*

① Pre-requisites for the application of asset-based approach:

Ⅰ. The relevant assets involved in the valuation target can be used normally or in use;

Ⅱ. The relevant assets involved in the valuation target can be obtained through replacement;

Ⅲ. The replacement cost of the relevant assets involved in the valuation subject and the relevant depreciation can be reasonably estimated.

② Analysis of applicability of asset-based approach

Sunshine Lake Pharma is an innovative pharmaceutical R & D enterprise with R&D, pre-clinical and clinical development, drug registration, manufacturing and sales of small molecule innovative drugs, biological innovative drugs and generic drugs as its core business. Its major assets include current accounts, fixed assets, off-book R & D projects, long-term equity investments, etc. Considering that R & D projects are the main business of pharmaceutical R & D enterprises and the main source of future profits of enterprises, the income approach is adopted in this valuation for the Company's innovative drugs and biological drugs R & D projects which have entered the clinical stage; As of the valuation benchmark date, the main profit-making entity of the Company is YiChang HEC ChangJiang Pharmaceutical Co., Ltd., a subsidiary. The overall value of the company is appraised by the income approach and the market approach, and the valuation results by the income approach are taken as the valuation conclusion. The cost approach is adopted for the valuation of other subsidiaries; As the Company has provided the list of assets and relevant valuation information of the subject of valuation, the main assets of the Company are normally used or in use, and the replacement value of the relevant assets of the Company is easily accessible to the valuers and the depreciation can be reasonably predicted, the asset-based approach is suitable for this valuation as a whole, and the income approach is adopted for assets which mainly reflect the profitability of the Company.

Based on the above analysis, the asset appraisal professionals are of the view that the asset-based approach is appropriate for this valuation based on the purpose of this valuation.

(III) Method for determining the valuation conclusion

On the basis of adopting a valuation method to form the valuation results, after analysing the completeness, data reliability and reasonableness of the reasons for increase or decrease in value of the information used in the specific application of the asset-based approach, the valuers are of the view that the method reasonably reflects the market value of the valuation target on the Valuation Benchmark Date, and therefore the valuation results under the asset-based approach are used as the final valuation conclusion of this report.

III. APPLICATION OF SPECIFIC VALUATION METHODS FOR VARIOUS ASSETS AND LIABILITIES UNDER THE ASSET-BASED APPROACH

(I) Valuation of current assets

1. Monetary funds

Monetary funds include bank deposits and other monetary funds. For non-foreign currency accounts, the appraised value is determined based on the verified book value. For foreign currency accounts, the appraised value is determined by multiplying the foreign currency exchange rate on the benchmark date by the book value of foreign currency.

2. Bills receivable

Bills receivable are non-interest bearing bank acceptance bills. The appraised value is determined based on the verified book value.

3. Trade and other receivables

On the basis of verification, the appraised value of various receivables is determined based on the amount of each payment that may be recovered. For the receivables that are believed to be fully recoverable with good reasons, the appraised value is calculated based on the entire amount of receivables; for the debts owed by the subsidiaries that have become insolvent, the repayment rate is calculated based on the appraised value of the net assets of the company after deducting the priority debt repayment, and the appraised value is calculated based on the book value multiplied by the debt repayment rate; for the amounts that may be partially unrecoverable, in the event that it is difficult to determine the amount of unrecoverable accounts, the amounts are estimated based on the historical information and on-site investigation, specifically analysing the amount, time and reason of the arrears, recovery of the amounts, the funds, credit, operation and management status of the debtors, and with reference to the ageing analysis method, and the appraised value is calculated after deducting the risk loss; for those that have conclusive evidence that they are unable to be recovered, the appraised value is zero; the appraised value of "provision for bad debts" item of the accounts is zero.

4. Prepayments

The valuation of prepayments is determined based on the value of assets or rights of the corresponding goods that can be recovered. If the corresponding goods or rights can be recovered, the verified book value is taken as the valuation.

5. Inventories

Inventories evaluated include materials procurement (material in transportation), raw materials, work in progress, finished goods and goods delivered. Based on the spot check and verification of the reported quantity and amount, the estimations are as follows:

For materials procurement and raw materials, the replacement cost method is adopted, which is based on the prevailing market prices of various materials, plus reasonable transportation and miscellaneous expenses and other reasonable expenses, multiplied by the actual quantity and recognised as the valuation.

For products, on the basis of verification, considering that the production cycle is short, the enterprise records the actual cost. The cost is comprised of raw materials used for production, and the book value can basically be reflected in the current value of the products. Therefore, the verified book value is recognised as the valuation.

For finished products, the Company will first check the prevailing market selling price, then calculate the sales costs and taxes based on the historical data provided by the Company, and then obtain the valuation by multiplying the verified quantity by the prevailing market selling price after deducting reasonable sales costs, taxes and appropriate profits.

For delivered goods, the appraised unit price is determined by deducting certain sales taxes, surcharges and income tax from the unit price before tax, and multiplied by the actual quantity to determine the valuated amount.

(II) Valuation of long-term equity investments

1. For subsidiaries under normal operation, the valuation professionals conducted an overall asset valuation and obtained the net asset value of the investee company, which was estimated in the following circumstances:

   ① Long-term equity investment unit is under normal operation and paid-in, and the valuated amount is determined by multiplying the overall valuated amount of the long-term equity investment unit by the shareholding ratio, and the valuated amount is limited to zero;

② Long-term equity investment unit is under normal operation but not paid up. If the overall valuated amount of the long-term equity investment unit is positive, the valuated amount is the overall valuated amount of the long-term equity investment unit multiplied by the subscribed shareholding ratio; if the overall valuated amount of the long-term investment unit is negative, it is valuated as zero, and the valuated amount of the estimated liabilities are recognised based on the absolute value of the valuated amount of the long-term equity investment unit multiplied by the shareholding ratio, or the registered paid-up capital, whichever is lower.

③ If the overall valuation of the long-term equity investment unit is negative (including both the normal operation and paid-in, and normal operation but not paid-in), the amount receivable is determined by multiplying the book value by the repayment rate.

2. Companies which have not commenced actual operations, have no business operations, and have not generated relevant financial data, they have not been individually assessed.

(III) Valuation of buildings and structures

The appraised buildings (structures) are mainly production plants and ancillary facilities. As there are few transactions of similar assets and the appraised assets do not have independent profitability, it is appropriate to adopt the cost approach for the valuation based on the purpose of the valuation and the actual usage and conditions of the appraised assets. The cost approach is a valuation method for the actual value of the valuation target by deducting the difference between the physical depreciation, functional depreciation and economic depreciation of the valuation target from the total cost required for the re-acquisition or construction of a new valuation target under actual conditions. The appraisal formula is as follows:

Valuated amount = full replacement cost × comprehensive depreciation rate

Full replacement cost = comprehensive construction and installation cost + preliminary expenses + other expenses + capital cost – deductible value-added tax input

1. Estimation of full replacement cost

(1) Comprehensive construction and installation cost

It mainly refers to various materials, machinery shift and labour costs directly or indirectly attributable to the construction of buildings, and is determined with reference to similar construction costs in the region where the building is located or the completion, and the settlement information of the appraised building and the price on the benchmark date.

(2) Preliminary expenses and other expenses

It mainly represents construction survey and design fees, bidding entrustment fees, project supervision fees, supporting infrastructure fees, construction management fees, construction insurance fees, etc., and is subject to the actual situation of the area where the buildings (structures) are located.

(3) Capital cost

According to the construction cycle of major buildings with independent production capacity, the LPR with same term limit issued by the National Interbank Funding Center during the month of the valuation benchmark date is implemented. Currently, the National Interbank Funding Center only issues LPR for products with a term of one year and more than five years. For the calculation period within one year, it is estimated based on the one-year LPR published during the month, and the calculation period between one year and five years is calculated based on the interpolation value of the two types of LPR published during the month. During the construction period, the preliminary expenses are calculated based on the one-off input, and the comprehensive cost and other expenses are calculated based on the even input.

(4) Deductible VAT input tax

The deductible input value-added tax is calculated separately based on the value-added tax rate applicable to the comprehensive construction and installation cost and the preliminary and other expenses.

2. Estimation of depreciation rate

After analysis, the appraised buildings (structures) do not have functional depreciation and economic depreciation. Therefore, the comprehensive depreciation rate of the appraised assets is determined mainly by the useful life depreciation rate and the surveyed depreciation rate. The estimation formula is as follows:

(1) Estimation formula of comprehensive depreciation rate

Comprehensive depreciation rate = surveyed depreciation rate × 60% + theoretical depreciation rate × 40%

(2) Estimation formula of theoretical depreciation rate

Theoretical depreciation rate = remaining useful life/(used life + remaining useful life) × 100%

(3) Estimation of on-site survey depreciation rate

Firstly, the valuation professionals visited the site to conduct on-site survey on buildings one by one; The quality and current status of each part of the building is evaluated, and the quality of each part of the building is scored according to the evaluation results.

Secondly, according to the importance of each part of the buildings in the overall structure, the weight coefficient of the scoring item in the overall survey depreciation rate is determined; the weight coefficient is 100% in total.

Finally, the overall surveyed depreciation rate was calculated by multiplying the score of each item by the corresponding weight coefficient, and the overall surveyed depreciation rate is maxed at 100 points.

3. Estimation of the appraised amount

Appraised amount = Full replacement cost × depreciation rate

(IV) Valuation of equipment assets

Equipment assets included in the scope of valuation include machinery equipment, transportation equipment and electronic equipment. According to the purpose of this valuation, the cost method is mainly adopted for the valuation of equipment assets based on the principle of continuous use in the place of origin, the market price, the characteristics of the equipment and the information collected.

Appraised amount = full replacement cost × comprehensive depreciation rate

1. Valuation method of machinery and equipment

(1) Determination of full replacement price

Full replacement price = purchase price + transportation and miscellaneous fees + safety adjustment fees + basic fees + other expenses + capital cost – deductible value-added tax

1) Determination of equipment purchase price

Domestically manufactured equipment: mainly determined through enquiry with manufacturers or trading companies, review of the "2022 Mechanical and Electrical Products Price Information Inquiry System" and reference to recent contract prices of similar equipment. For few equipment whose purchase prices are unavailable, the price change rate of equipment of the same age and same type is used for estimation.

Imported equipment: the replacement principle shall be given priority to domestic alternative equipment, and appropriate adjustment shall be made and determined based on the purchase price of domestic equipment on the benchmark date; if irreplaceable, the current purchase price of such equipment shall be determined based on the prevailing or most recent FOB or CIF price of imported similar equipment in the market, and on such basis, the foreign transportation and miscellaneous fees, foreign transportation insurance premiums, customs duties, bank charges, foreign trade handling fees, commercial inspection fees, etc. of such equipment shall be considered.

Purchase price = free on board (FOB) + overseas transportation and miscellaneous fees + overseas transportation insurance fees + customs tax + bank finance fees + foreign trade handling fees + customs supervision fees

2) Determination of transportation and miscellaneous fees

Transportation and miscellaneous expenses of equipment mainly include transportation fees, loading and unloading fees, insurance fees, etc., which are generally calculated based on the equipment purchase price, taking into account factors such as the distance between the manufacturer and the location of the equipment, the weight of the equipment and the shape of the equipment, etc., according to different transportation and miscellaneous expenses rates. If transportation and miscellaneous fees are included in the equipment fees, they will not be counted repeatedly.

3) Determination of installation and commissioning fee

Based on the characteristics, weight and difficulty of installation of the equipment, the installation fee is calculated at different rates based on the purchase price, and will not be repeated if the installation fee is not required, or if the installation fee is included in the cost of equipment.

4) Determination of basic expenses

In the case that the basic equipment required is not repeated under the accounting of buildings, certain basic fee rate is considered according to the actual conditions of the equipment.

5) Determination of other expenses

Other expenses consist of government policy fees and construction unit management costs, including feasibility study fees (also known as consulting fees for preliminary work of construction projects), bidding agency fees, survey and design fees, project supervision fees and project construction management fees. According to the requirements of the

Notice of the NDRC on Further Decontrolling the Prices of Professional Services for Construction Projects (Fa Gai Jia Ge [2015] No. 299) issued by the NDRC, the government-guided prices for preliminary work consulting fees, engineering survey and design fees, bidding agency fees, engineering supervision fees and environmental impact consulting fees for construction projects are decontrolled and market-regulated prices are implemented. As there is no standard market price, this valuation still refers to the standards stipulated in the above-mentioned five government-guided fee documents. The valuation base is the total investment excluding land use rights, and the other expenses of the construction project are determined.

6) Determination of capital cost

According to the reasonable construction period of the construction project, the capital cost is calculated based on the applicable loan interest rate as at the Valuation Benchmark Date and evenly invested during the construction period. The components are calculated on a tax-inclusive basis.

7) Deductible VAT

According to the relevant tax documents such as Cai Shui [2008] No. 170, Cai Shui [2013] No. 106, Cai Shui [2016] No. 36, and the Announcement of the General Administration of Customs of the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs [2019] No. 39, on the valuation benchmark date, the input tax incurred by a taxpayer on a fixed asset purchased or self-manufactured by it can be deducted from the output tax amount based on the special invoice for value-added tax, the special payment letter for import value-added tax by the customs and the settlement documents for transportation expenses, and the input tax amount is recorded in the item of "payable value-added tax (input tax)". Therefore:

Deductible VAT = equipment purchase price × 13%/(1 + 13%) + (transportation and miscellaneous fees + security adjustment fees + basic fees) × 9%/(1 + 9%) + other deductible amount

(2) Determination of comprehensive depreciation rate

The main equipment adopts a comprehensive depreciation rate, and the calculation formula is:

Comprehensive depreciation rate = useful life depreciation rate × 40% + surveyed depreciation rate × 60%

1) Determination of useful life depreciation rate

Useful life depreciation rate is determined based on the economic life (or remaining useful life) and used life of the equipment.

Useful life depreciation rate = (economic useful life – used life) ÷ economic useful life × 100%

2) Determination of surveyed depreciation rate

The determination of the surveyed depreciation rate is mainly based on the actual conditions of the equipment of the enterprise. The survey depreciation rate is determined based on the individual scores of each part based on the technical status, working environment and maintenance of the equipment and the actual on-site investigation.

3) For equipment with low value, light structure, simple structure and normal use, the depreciation rate is determined using the useful life method mainly based on the time of use and the repair and maintenance situation.

2. *Valuation approaches of vehicles*

(1) Determination of full replacement cost

The full replacement price of the appraised vehicles is determined by analysing and determining the purchase price of new vehicles in the local area on the valuation benchmark date through ways such as market enquiry, plus the national deductible value-added tax,. The calculation formula is as follows:

Full replacement cost = purchase price + vehicle purchase tax + other expenses – deductible value-added tax

Vehicle purchase tax = non-taxable sales price of vehicles × 10% tax rate

Deductible value-added tax = Purchase price with tax/(1 + 13%) × 13%

Other expenses comprise industrial and commercial transaction fees, vehicle inspection fees and license fees, which are calculated at RMB500.00.

(2) Determination of comprehensive depreciation rate

The depreciation rate is determined by integrating depreciation rates of useful lives, mileage and techniques for vehicles. The lower of the economic life depreciation rate and mileage depreciation rate is taken as the theoretical depreciation rate, which is then weighted with the technical depreciation rate to determine the comprehensive depreciation rate. The theoretical depreciation rate is 0.4 and the surveyed depreciation rate is 0.6. The economic life depreciation rate and mileage depreciation rate are estimated with reference to the number of years used and the prescribed mileage stipulated under national laws.

1) Determination of theoretical depreciation rate (η 1)

Term-based depreciation rate = (economic life – used life)/economic life × 100%

Mileage depreciation rate = (life mileage – used mileage)/life mileage × 100%

The theoretical depreciation rate (η 1) is determined based on the lower of term depreciation rate and mileage depreciation rate.

2) Determination of the surveyed depreciation rate (η 2)

For the determination of the technical depreciation rate of vehicles, the valuation professionals first understand the performance, use, use intensity, accidents, etc. of vehicles. Through on-site inspection, the valuers check condition of vehicles such as appearance, colour, internal decoration, audio efficiency of air conditioners, engine operation (noise, fuel consumption, power), braking, lighting, and evaluate and score each functional component of vehicles. The sum of the appraised score of each part of vehicles is the on-site surveyed depreciation rate of the equipment (η 2).

3) Determination of comprehensive depreciation rate (η)

Comprehensive depreciation rate (η) = theoretical depreciation rate (η 1) × 40% + surveyed depreciation rate (η 2) × 60%

3. *Valuation approaches of electronic equipment*

(1) Determination of full replacement cost

Electronic equipment mostly covers computers, printers, air conditioners for office use for enterprises. The distributors are responsible for delivery, installation and commissioning. The replacement cost is directly determined by the market purchase price. The calculation formula is as follows:

Full replacement price = purchase price – deductible value-added tax

(2) Determination of depreciation rate

Electronic equipment is mainly determined by life depreciation rate.

Life-based depreciation rate = (economic useful life – used life) ÷ economic useful life × 100%

For equipment with a life-based depreciation rate of less than 15%, its life-based depreciation rate is considered at 15%.

For scrapped equipment that is treated at the residual value rate, electronic equipment for office use that has been purchased for a long period of time and ceased production yet can be used normally is evaluated at net realisable value.

(5) Valuation of right-of-use assets

The right-of-use assets to be appraised mainly consist of right-of-use assets leased by the Company such as a plant for office use. It is understood that there is no recent material change in such lease contracts, and the lease price is in line with the prevailing lease market price. The valuation professionals determine the valuation amount based on the verified value upon verification.

(6) Valuation of intangible assets — land use rights

Recently there are many similar land transaction cases in the area where the appraised parcel of land is located, such that the market value of land use rights is determined by market comparison approach. The market comparison approach is a way used to determine the appraised value of the appraised land by selecting certain land parcels of the same or similar nature in the market as the reference, comparing and adjusting the price differences between the appraised land parcels and the reference on an individual basis based on various factors affecting values, and comprehensively analysing the results of various adjustments. The basic formula is as follows:

$P = PB \times A \times B \times C \times D \times E$

Where: P: the price of the land to be appraised;

PB: Price of comparable cases;

A: Status index of the land to be appraised/Status index of comparable land

B: Land Price Index of the land parcel to be appraised as at the Valuation Benchmark Date/Land Price Index of the land parcel of the comparable case as at the Transaction Date

C: Regional factor condition index of the land parcel to be appraised/regional factor condition index of the land parcel in the comparable case

D: Individual factor condition index of the land parcel to be appraised/Individual factor condition index of the comparable land parcel

E: correction index for the term of the land parcel to be appraised/ correction index for the term of the land parcel in the comparable case

(7) Valuation of intangible assets — other intangible assets

As at the Valuation Benchmark Date, intangible assets — other intangible assets include purchased software and off-book research and development projects recorded in the book.

1. Purchased software and other intangible assets

The appraisers reviewed the book formation basis of the software system and estimated the amortisation of the software system based on the market selling price. The estimated value is equivalent to the book balance. The verified book value is taken as the appraised value in this valuation.

2. Research and development projects

(1) Research and development project of generic drugs

The generic drug projects within the scope of this valuation can be divided into those with partial equity transfer and those that retain the entire equity interest.

The generic drug project with partial equity transfer represented in this valuation refers to the transfer of the domestic equity interests of 33 generic drugs by Sunshine Lake Pharma Co., Ltd. to HEC Pharm, while the remaining equity interests are all foreign equity projects. It is understood that in recent years, the sales volume of the Company's products that have been launched abroad has dropped significantly, and the future market of the products that have been approved abroad is uncertain, and it is not appropriate to adopt the income approach for valuation; It is difficult for valuation professionals to find comparable references and transaction cases similar to the appraised assets in the market, and it is not appropriate to adopt the market approach for valuation; The valuer checked the research and development expenses of this part of generic drug project provided by the Company, and took the verified research and development expenses as the valuation amount.

For the generic drug projects that retain the entire equity interest, this valuation takes into account the large number of generic drug manufacturers and R&D enterprises, keen market competition, and the great uncertainty of the Company's future market share and drug sales price; In recent years, the national volume-based procurement has gradually become normalised, the price reduction trend of traditional generic drugs will accelerate, the profit margin of the generic drug industry has been significantly lowered, and the generic drug industry is facing a reshuffle. Against such a backdrop, the future revenue of the Company's generic drug projects is highly uncertain. At the same time, it is difficult for the valuation professionals to find comparable references and transaction cases similar to the appraised assets in the market. Therefore, the cost approach is adopted for this valuation, that is, the appraised amount = replacement cost — depreciation; replacement cost = direct cost of research and development + indirect cost of research and development + other expenses + capital cost + reasonable profit. For normal research and development and projects that have obtained approval, there is no depreciation after analysis, the appraised amount is therefore determined based on the replacement cost.

(2) Research and development projects of new drugs and biological drugs

For projects of new drugs and biological drugs under research that have not entered the clinical stage, considering that they are at the early stage of research and development, research and development risks in the future are highly uncertain, and the research and development of new drugs and biological drugs are difficult, the research and development cycle is long, and the future product launch is highly uncertain. Meanwhile, it is difficult for valuation professionals to find comparable references and transaction cases similar to the appraised assets in the market. This valuation is conducted using the cost approach, that is, the valuation amount = replacement cost — depreciation; replacement cost = direct cost of research and development + indirect cost of research and development + other expenses + capital cost + reasonable profit. For projects under normal research and development, there is no depreciation after analysis, the valuation amount is therefore determined based on the replacement cost.

For projects of new drugs and biological drugs that have entered clinical stage, the Company can reasonably predict the future income based on market conditions, industry competition, the characteristics of the products under research and development and the expenses of the same industry. The income approach is adopted for valuation of the project as a whole. The income approach embedded in the decision tree model is adopted for this estimation. The decision-making tree is a value estimation based on the probability of success, which is based on the value of the research and development results under the assumption that the research and development of new drugs is completed and the drugs are successfully marketed, while taking into account the probability of success of new drugs at various stages (clinical Phase I/II/III and registration). The estimation model is as follows:

$P = PA \times i$

Where: P: Value of research and development projects;

PA: the value of research and development results assuming the research and development of drugs is completed and the drugs are successfully marketed;

i: Probability of success in research and development.

Assuming that the research and development of new drugs is completed and the drugs are successfully marketed, the income approach is adopted, which is a method for asset valuation by estimating the net cash flow generated from the research and development project in the future income period, and discounting it into the present value, being the value of the research and development project, at a certain discount rate. The estimation formula is as follows:

$$PA = \sum_{i}^{n} (Ai - Bi - Ci - Di + Ei)/(1 + r)^{n}$$

Where: PA: the value of R&D achievements under the premise of completion of research and development of new drugs and successful marketing of drugs;

Ai: Expected income in the i th year in the future;

Bi: Expected cost for the i th year in the future;

Ci: Expected R&D expenditure in the i th year in the future;

Di: Expected additional working capital in the i th year in the future;

Ei: Expected working capital recovery in the i th year in the future;

n: Income period;

r: Pre-tax discount rate.

Bi = Cost of principal business + tax and surcharges + selling expenses + management fee

(3) External transfer projects

For the three non-related party transfer projects of Dongningan, Dongjiansheng and Dongjianan, according to the transfer agreement, the progress and amount of project transfer payment are closely related to the future research and development progress and status of the project, corresponding to the future income of drugs. Considering that the project is in the early stage of transfer on the benchmark date, the subsequent R&D is mainly responsible by Shenzhen HEC Industrial and the future R&D and drug sales of the transferee are highly uncertain, the cost approach is adopted for this valuation. For other transferred projects (mainly the subsequent contractual rights of Rongliflozin and liraglutide), the valuation amount is determined based on the subsequent contractual rights available.

(4) Suspended R&D Projects

For the suspended R&D projects, the valuation amount is determined based on the actual investment cost according to the reasons for suspension of each project, whether it is possible to resume afterwards, and whether the R&D achievements can be transferred.

(8) Valuation of development expenditures

In this valuation, the project involved in the development expenditure is included in the research and development project of other intangible assets in intangible assets, and the development expenditure is valued as nil.

(9) Valuation of other non-current assets

All other non-current assets are contracts that have not been completed or not settled, and the verified book value is taken as the appraised value.

(10) Valuation of liabilities

Liabilities include short-term borrowings, notes payable, accounts payable, contract liabilities, staff emoluments payable, taxes payable, other payables, long-term borrowings, lease liabilities, long-term payables, provisions and deferred income.

1. Contract liabilities

For the advance from YiChang HEC ChangJiang Pharmaceutical Co., Ltd., as the contract cost can be reasonably estimated, the valuation amount is determined according to the subsequent obligations agreed in the contract and the relevant tax payment obligations; For advances from other non-related parties, as the contract cost cannot be reasonably estimated, the appraised amount is determined based on the verified book value.

2. Borrowings

On the basis of verification, the appraised amount is determined based on the amount of principal and interest paid according to actual needs.

3. Provisions

For long-term equity investment, some units are under normal operation, yet Sunshine Lake Pharma has not fulfilled the actual capital contribution obligation, and the overall value estimate is negative, the appraised value of the long-term equity investment is nil, and the valuation amount of estimated liabilities are recognised in the estimated liabilities based on the lower of the absolute value of the estimated value of the long-term equity investment unit multiplied by the shareholding ratio and the registered capital actually paid.

4. Deferred income

As the Company is in a loss-making position, projects that have been completed and accepted are not subject to income tax. Therefore, the appraised value of the projects that have been completed and accepted is determined as nil; For projects that are under construction but have not been completed or have not been finally accepted, the appraised value is determined based on the verified book value.

5. Other liabilities

On the basis of verification, the appraised amount is determined based on the book value.

IV. VALUATION ASSUMPTIONS

(1) General assumptions

1. Transaction assumption: it is assumed that all assets to be appraised are dealt with in the process of transaction, and the asset valuer conducts the valuation based on the simulated market such as the transaction conditions of the assets to be appraised.

2. Open market assumption: Open market assumption concerns the conditions of the market where the assets are intended to enter and how the assets are affected under such market conditions. The open market refers to fully developed and perfect market conditions, which refers to a competitive market with voluntary buyers and sellers. In this market, buyers and sellers have equal status and have the opportunity and time to obtain sufficient market information, and the transactions between buyers and sellers are conducted under voluntary, rational, non-compulsory or unrestricted conditions.

3. Assumption of continuous use of assets: continuous use assumption is an assumption of the conditions of the market where the assets are intended to enter and the status of the assets under such market conditions. Firstly, the appraised assets are in use, and secondly, it is assumed that the assets in use will continue to be used. Under the assumption of continuous use, without considering the change of use of assets or the best use conditions, the scope of use of the valuation results is limited.

4. Enterprise going concern assumption: The production and operation of the appraised entity can continue to operate in its current condition, and there will be no material changes in its operating conditions in the foreseeable operating period.

(2) Special assumptions

1. It is assumed that there are no material changes in the existing relevant laws and regulations, industry policies, industrial policies, and macro-economic environment of the state and local area (where the appraised entity operates business) as compared with the valuation benchmark date; there are no material changes in the political, economic and social environment of the region where the Company operates.

2. It is assumed that there will be no material changes in the fiscal and monetary policies of the regions in which the Company operates, and the relevant interest rates, exchange rates, tax bases and tax rates, and policy-based levies.

3. It is assumed that there are no other force majeure factors and unforeseeable factors that will have a material adverse impact on the Company's continuous operation.

4. It is assumed that the business scope (operation scope), operation model, product structure and decision-making procedures of the Company are basically consistent with those currently in place based on the existing management mode (model) and management level, and the future development trend of its business is basically consistent with the development trend of the industry in which it operates as at the valuation benchmark date.

5. It is assumed that the operator of the Company is responsible and its management is capable of performing its duties and responsibilities.

6. It is assumed that all business-related qualifications of the appraised entity can successfully obtain the approval of relevant authorities after the expiration of the validity period, and the industry qualifications will remain valid.

7. It is assumed that the main operating assets and businesses of the appraised entity are free from legal disputes and obstacles, and the property rights of the assets are clear.

8. It is assumed that the enterprise will maintain its existing credit policy and will not encounter any major problem of fund recovery in the future.

9. It is assumed that the contracts and agreements entered into by the appraised entity in previous years and the current year are valid and enforceable.

10. It is assumed that the information (basic information, financial information, operational information, forecast information, etc.) provided by the client and the Company are true, accurate and complete, and the disclosure of relevant material matters is sufficient.

11. It is assumed that the Company fully complies with all relevant current laws and regulations.

12. It is assumed that the future cash flows of the project will be inflows and outflows in the medium term.

13. It is assumed that the research and development results of pre-clinical (non-terminated) research and development projects will be effective in the future, and the expected economic benefits can cover the costs to be paid.

(3) Valuation of Restricted Conditions

1. The valuation results are based on the market value of the valuation target estimated for the purpose of this valuation and based on the assumption of the open market, without taking into account the impact of possible increase or decrease in the price paid for special transactions on its appraised value, and without taking into account the impact of changes in the macroeconomic environment and natural forces and other force majeure on the asset price.

2. The valuation benchmark date adopted in the valuation report has been clearly stated in the report. Our valuation is based on the purchasing power of the currency where the enterprise is located on the valuation benchmark date.

The valuation results in this report are based on the above assumptions and limitations. When the above valuation assumptions and limitations change significantly, the valuation results will be invalid.

V. VALUATION CONCLUSION

The market value of the total shareholders' equity of Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司) as at 31 October 2022 was appraised in accordance with the relevant national regulations on asset valuation, and in accordance with the principles of independence, impartiality and objectivity and necessary valuation procedures. Based on the above valuation work, the following valuation conclusion is reached:

By adopting the asset-based approach, the book value and appraised value of the total assets of Sunshine Lake Pharma Co., Ltd. were RMB6,668,811,800 and RMB29,209,230,000, respectively, representing an appreciation of RMB22,540,418,200 or 338.00% over the book value; the book value and appraised value of the total liabilities were RMB6,413,053,200 and RMB5,883,940,800, respectively, representing a change of RMB-529,112,400 or -8.25% over the book value; the book value and appraised value of the total shareholders' equity were RMB255,758,600 and RMB23,325,289,200, respectively, representing an appreciation of RMB23,069,530,600 or 9,020.04% over the book value. The market value of the entire shareholders' equity of Sunshine Lake Pharma Co., Ltd. appraised as at the valuation benchmark date of 31 October 2022 is **RMB23,325,289,200 (RMB Twenty-Three Billion, Three Hundred and Twenty-Five Million, Two Hundred and Eighty-Nine Thousand and Two Hundred**).

The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for inclusion in this circular.

KPMG

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF TOTAL SHAREHOLDERS' EQUITY OF SUNSHINE LAKE PHARMA CO., LTD.

TO THE BOARD OF DIRECTORS OF YICHANG HEC CHANGJIANG PHARMACEUTICAL CO., LTD.

We refer to the discounted future cash flows on which the valuation (the "**Valuation**") dated 9 December 2022 prepared by Carea Assets Appraisal Co., Ltd (開元資產評估有限公司) in respect of the appraisal of the market value of total shareholders' equity of Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司) (the "**Target Company**") as at 31 October 2022 is based. The Valuation is prepared based in part on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of Opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG
Certified Public Accountants

Hong Kong
10 March 2023

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)

10 March 2023

Listing Department
The Stock Exchange of Hong Kong Limited
12/F., Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF TARGET EQUITY IN SUNSHINE LAKE PHARMA

We refer to the valuation report dated 9 December 2022 prepared by an independent third party valuer in relation to the Valuation. The Valuation is prepared based in part on the discounted future cash flows and is regarded as a profit forecast under Rule 14.61 of the Listing Rules. Capitalized terms used herein shall have the same meanings as defined in the circular of the Company dated 10 March 2023 unless the context otherwise requires.

We have reviewed the bases and assumptions upon which the Valuation has been prepared and for which Carea Assets Appraisal Co., Ltd. (開元資產評估有限公司) (now known as Beijing KYSIN Assets Appraisal Co. , Ltd (北京坤元至誠資產評估有限公司)) is responsible. We have also considered the report from the reporting accountants of the Company, KPMG, regarding whether the discounted future cash flows of the Target Company, so far as the calculation are concerned, have been properly compiled, in all material respects, in accordance with the respective bases and assumptions adopted by us as set out in the Valuation.

On the basis of the foregoing, we confirm that we have made the profit forecast of the Target Company after due and careful enquiry.

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

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the past three years ended 31 December 2019, 2020 and 2021 and for the six months ended 30 June 2022 are disclosed in the following documents which have been published on the respective websites of the Stock Exchange at *(www.hkexnews.hk)* and the Company at *(www.hec-changjiang.com)*:

(a) the audited financial statements included in the annual report of the Company for the year ended 31 December 2019:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042801260.pdf

(b) the audited financial statements included in the annual report of the Company for the year ended 31 December 2020:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0415/2021041500764.pdf

(c) the audited financial statements included in the annual report of the Company for the year ended 31 December 2021:

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0420/2022042000671.pdf

(d) the unaudited financial statements included in the interim report of the Company for the six months ended 30 June 2022:

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0926/2022092600387.pdf

2. WORKING CAPITAL STATEMENT

The Directors, after due and careful considerations, are of the opinion that, taking into account the expected completion of the Disposal, the internal resources available and the existing available credit facilities to the Group, the Group will have sufficient working capital for its present requirement for at least twelve months from the date of publication of this circular in the absence of unforeseen circumstances.

The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

3. INDEBTEDNESS STATEMENT

As at 31 January 2023, the Group had total outstanding borrowings of approximately RMB3,221,116,000 comprising secured and guaranteed loans of RMB1,356,931,000 and the H Share Convertible Bonds in the principal amount of approximately RMB1,864,185,000.

Save as aforesaid, and apart from intra-group liabilities, as at 31 January 2023, the Group did not have any other loan capital issued and outstanding or agreed to be issues, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

4. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, up to and including the Latest Practicable Date, the Directors have not been aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up to.

5. FINANCIAL AND BUSINESS PROSPECT OF THE GROUP

The Company is a pharmaceutical manufacturing company focusing on the development, manufacturing and sale of pharmaceutical products.

On 10 July 2018, the Company entered into an agreement for Previous Acquisition with Sunshine Lake Pharma, pursuant to which the Company agreed to acquire, and Sunshine Lake Pharma agreed to dispose, the know-how, ownership of approval for manufacturing and marketing and the right to sale of Clarithromycin Sustained Release Tablets (克拉黴素緩釋片), Levofloxacin Tablets (左氧氟沙星片), Clarithromycin Tablets (克拉黴素片), Moxifloxacin Tablets (莫西沙星片), Olmesartan Tablets (奧美沙坦酯片) and Esomeprazole Magnesium Enteric-coated Tablets (埃索美拉唑鎂腸溶膠囊) at a consideration of RMB505,200,000. These six generic drugs acquired can enrich the Group's product portfolio.

On 14 August 2018, the Company and the Blackstone Fund SPVs entered into a subscription agreement, pursuant to which, the Blackstone Fund SPVs has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the H Share Convertible Bonds with an aggregate principal amount of US$400,000,000.

The net proceeds from the issue of the H Share convertible bonds are intended to be used for the purposes of the acquisition of drugs and other pharmaceutical products (including active pharmaceutical ingredients), capital expenditure on production facilities, expansion of sales and distribution networks.

In 2023, the Group will continue to promote the consistency evaluation of other generic drugs and provide medication option of both good quality and competitive price for patients. In addition, the Group will continue to strengthen investment in product innovation, enrich product mix, strengthen production management capabilities of the company, ensure high quality of products, strengthen marketing team, give full play to academic promotion advantages and improve coverage of medical institutions at all levels.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

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

Name	Types of Shares	Capacity	Number of shares/ underlying shares held *(shares)*	Approximate percentage of relevant class of share capital *(%)*	Approximate percentage of total issued share capital *(%)*
Directors					
TANG Xinfa	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%
Supervisors					
WANG Shengchao	H Shares	Beneficial owner	32,000 (L)	0.004%	0.003%
LUO Zhonghua	H Shares	Beneficial owner	66,800 (L)	0.010%	0.007%

(L) — Long position

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

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

Substantial shareholders' interests

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

Name of Shareholders	**Types of Shares**	**Capacity**	**Number of Shares/ underlying Shares held** *(shares)*	**Number of underlying shares held under equity derivatives** *(shares)*	**Approximate percentage of relevant class of share capital** *(%)*	**Approximate percentage of total issued share capital** *(%)*
Guangdong HEC Technology Holding Co., Ltd.	H Shares	Beneficial owner	21,815,200 (L)	—	3.33% (L)	2.47% (L)
Shenzhen HEC Industrial Development Co., Ltd.*[2]	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[2]	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.[2]	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.[3]	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)

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.[2]	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[4]	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[5]	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[6]	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[7]	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[7]	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[8]	H Shares	Interest in controlled corporation	—	142,528,669 (L) 142,528,669 (S)	21.80% (L) 21.80% (S)	16.20% (L) 16.20% (S)
The Blackstone Group L.P.[8]	H Shares	Interest in controlled corporation	—	142,528,669 (L) 142,528,669 (S)	21.80% (L) 21.80% (S)	16.20% (L) 16.20% (S)
Blackstone Dawn Pte. Ltd.[8]	H Shares	Beneficial owner	—	139,678,095 (L) 139,678,095 (S)	21.37% (L) 21.37% (S)	15.87% (L) 15.87% (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 Xinfa 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. Sunshine Lake Pharma Co., Ltd. pledged 226,200,000 Domestic Shares to a third-party lender as collateral for the loan provided to it by the third-party lender.

4. 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.

   As at the Latest Practicable Date, Ms. Guo owned 72.11 % equity interest in Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd., therefore Ms. Guo is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd..

5. As at the Latest Practicable Date, Mr. Zhang Yushuai owned 27.59% equity interest in Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd., therefore Mr. Zhang Yushuai is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd..

6. 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.

7. 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.

8. 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 was adjusted to HK$19 per H Share due to the completion of bonus issue of Shares on 10 July 2020. The conversion price was further adjusted to HK$14 per H Share according to the adjusted net profit of the Company for the year ended 31 December 2021. 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 51,460,351 Shares (which are adjusted to 139,678,095 Shares due to the adjustment of the conversion price) held by Blackstone Dawn Pte. Ltd., in relation to 295,372 Shares (which are adjusted to 801,724 Shares due to the adjustment of the conversion price) held by Blackstone Dawn Holdings ESC (Cayman) Ltd. and in relation to 754,839 Shares (which are adjusted to 2,048,850 Shares due to the adjustment of the conversion price) held by BCP VII Dawn ESC (Cayman) NQ Ltd.

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

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

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

Name	Positions in the Company	Other interests
Mr. TANG Xinfa	Chairman and non-executive Director of the Company	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 Xinfa, 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 EXPERTS AND CONSENTS

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

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under SFO
KPMG	Certified Public Accountants
Carea	an independent valuer qualified in the PRC

As of the Latest Practicable Date, each of the experts mentioned above: (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report or opinion and the references to its names included herein in the form and context in which it is respectively included; (ii) has no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and (iii) has no direct or indirect interests in any assets which have been, since 31 December 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 CONTRACT

The following contract (not being contracts in the ordinary course of business of the Group), which is or may be material, has been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date:

(a) the Equity Transfer Agreement.

Save as disclosed above, no material contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the Latest Practicable Date.

10. 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.

11. 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 associate director of SWCS Corporate Services Group (Hong Kong) Limited and a fellow of the Hong Kong Chartered Governance Institute, 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.

12. DOCUMENTS ON DISPLAY

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

(a) the Articles of Association;

(b) the letter of recommendation from the Independent Board Committee dated 10 March 2023, the text of which is set out on page 17 of this circular;

(c) the letter of advice from Gram Capital dated 10 March 2023, the text of which is set out on pages 18 to 49 of this circular;

(d) the valuation report dated 9 December 2022 to appraise the market value of the total shareholders' equity interest of Sunshine Lake Pharma Co., Ltd. involved in the equity interest in Sunshine Lake Pharma Co., Ltd. prepared by Carea;

(e) the report from KPMG relating to the calculation of discounted future cash flows used in the Valuation dated 10 March 2023, the text of which is set out on pages 82 to 84 of this circular;

(f) the letter from the Board relating to the profit forecast of the Target Company dated 10 March 2023, the text of which is set out on page 85 of this circular;

(g) the written consent of each of KPMG, Gram Capital and Carea, which was referred to in the section headed "Qualification of Experts and Consents" in this appendix;

(h) a copy of each of the material contracts set out in the section headed "Material Contracts" in this appendix; and

(i) a copy of 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 2023 FIRST EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2023 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 Tuesday, 28 March 2023 to consider and, if thought fit, approve the following resolution. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated Friday, 10 March 2023 (the "**Circular**").

ORDINARY RESOLUTION

"**THAT**:

(a) the entering into the Equity Transfer Agreement as defined and described in the Circular and all the transactions contemplated thereunder, be and hereby approved, confirmed and ratified; and

(b) any one of the directors of the Company be and hereby authorised to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things, as the case may be, as he/she may in his/her discretion consider necessary, desirable or expedient in connection with the performance of the rights and/or obligations under the Equity Transfer Agreement and the transactions contemplated thereunder."

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

Hubei, the PRC
10 March 2023

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 Monday, 27 March 2023 to Tuesday, 28 March 2023, 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 Monday, 27 March 2023 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 Friday, 24 March 2023 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 Monday, 27 March 2023).

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.

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 Yangui and Mr. LI Shuang as executive Directors; Mr. TANG Xinfa as a non-executive Director; and Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen as independent non-executive Directors.