THIS SUPPLEMENTAL CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this supplemental 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 supplemental 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.

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)

CONTINUING CONNECTED TRANSACTIONS
1. ENERGY PURCHASE FRAMEWORK AGREEMENT;
2. APIs PURCHASE AGREEMENT;
3. PACKAGING AND PRODUCTION MATERIALS PURCHASE FRAMEWORK AGREEMENT;
4. EQUIPMENT PURCHASE AND CIVIL CONSTRUCTION FRAMEWORK AGREEMENT;
5. ENTRUSTED PROCESSING FRAMEWORK AGREEMENT;
6. EQUIPMENT SALES FRAMEWORK AGREEMENT;
7. ENTRUSTED PRODUCTION AND INSPECTION SERVICES FRAMEWORK AGREEMENT
AND
SUPPLEMENTAL NOTICE OF ANNUAL 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 36 of this supplemental circular. A letter from Independent Financial Advisor containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-45 of this supplemental circular and a letter from the Independent Board Committee is set out on pages IBC-1 to IBC-2 of this supplemental circular.

A supplemental notice convening the AGM to be held at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC at 10:00 a.m. on Friday, 2 June 2023, together with the supplemental form of proxy for use at the AGM were despatched to the Shareholders on Wednesday, 17 May 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). This supplemental circular shall be read together with the circular and a notice convening the AGM of the Company dated 24 April 2023.

Whether or not you would attend the AGM, please fill in the supplemental form of proxy according to relevant instructions and return it as soon as possible, and not less than 24 hours before the fixed time of holding such meeting (i.e. before 10:00 a.m. on Thursday, 1 June 2023) or any adjournment thereof. The completion and return of the supplemental form of proxy will not preclude you from attending and voting in person at the AGM or any adjournment thereof if you so desire.

17 May 2023

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

"AGM"	the annual general meeting of the Company to be held at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC at 10:00 a.m. on Friday, 2 June 2023
"Announcement"	the announcement dated 27 February 2023 made by the Company in relation to, among others, the Continuing Connected Transaction Agreements and their respective proposed annual caps
"APIs Purchase Agreement"	the APIs purchase agreement dated 27 February 2023 entered into between the Company and Shenzhen HEC Industrial
"Board"	the board of Directors of the Company
"Company"	YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (宜昌東陽光長江藥業股份有限公司), a company established in the PRC on 11 May 2015 as a joint stock company with limited liability
"Continuing Connected Transactions"	the transactions contemplated under each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement and their respective proposed annual caps
"Continuing Connected Transaction Agreements"	the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement
"Director(s)"	the director(s) of the Company

"Domestic Share(s)"	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) subscribed for or credited as fully paid in RMB
"Energy Purchase Framework Agreement"	the energy purchase framework agreement dated 27 February 2023 entered into between the Company and Shenzhen HEC Industrial
"Entrusted Processing Framework Agreement"	the entrusted processing framework agreement dated 27 February 2023 entered into between the Company and Shenzhen HEC Industrial
"Entrusted Production and Inspection Services Framework Agreement"	the entrusted production and inspection services framework agreement dated 27 February 2023 entered into between the Company and Shenzhen HEC Industrial
"Equipment Purchase and Civil Construction Framework Agreement"	the equipment purchase and civil construction framework agreement dated 27 February 2023 entered into between the Company and Shenzhen HEC Industrial
"Equipment Sales Framework Agreement"	the equipment sales framework agreement dated 27 February 2023 entered into between the Company and Shenzhen HEC Industrial
"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 dollar
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"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 Continuing Connected Transaction Agreements and their respective proposed annual caps
"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 the independent financial advisor appointed by the Company to advise the Independent Board Committee and the Independent Shareholder(s) in respect of the Continuing Connected Transactions

"Independent Shareholder(s)"	shareholder(s) other than Shenzhen HEC Industrial and its associate(s), such as Sunshine Lake Pharma and HEC (Hong Kong) Sales Co., Limited, who are not involved in or interested in the Continuing Connected Transactions
"Latest Practicable Date"	12 May 2023, being the latest practicable date for the purpose of ascertaining certain information contained in this supplemental circular prior to its publication
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Packaging and Production Materials Purchase Framework Agreement"	the packaging and production materials purchase framework agreement dated 27 February 2023 entered into between the Company and Shenzhen HEC Industrial
"PRC" or "China"	the People's Republic of China and for the purpose of this supplemental circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"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 the Shares
"Shenzhen HEC Industrial"	Shenzhen HEC Industrial Development Co., Ltd. (深圳市東陽光實業發展有限公司), a company incorporated in the PRC and a holding company of Sunshine Lake Pharma as at the Latest Practicable Date
"Shenzhen HEC Industrial Group"	Shenzhen HEC Industrial and its subsidiaries
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Sunshine Lake Pharma"	Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司), a company incorporated in the PRC on 29 December 2003, a controlling Shareholder of the Company and an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial

"Supplemental AGM Notice"	the supplemental notice of the AGM dated 17 May 2023 convening the AGM
"%"	per cent

In this supplemental 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 supplemental 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

17 May 2023

To the Shareholders:

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS
1. ENERGY PURCHASE FRAMEWORK AGREEMENT;
2. APIs PURCHASE AGREEMENT;
3. PACKAGING AND PRODUCTION MATERIALS PURCHASE FRAMEWORK AGREEMENT;
4. EQUIPMENT PURCHASE AND CIVIL CONSTRUCTION FRAMEWORK AGREEMENT;
5. ENTRUSTED PROCESSING FRAMEWORK AGREEMENT;
6. EQUIPMENT SALES FRAMEWORK AGREEMENT;
7. ENTRUSTED PRODUCTION AND INSPECTION SERVICES FRAMEWORK AGREEMENT
AND
SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement. The purpose of this supplemental circular is to provide you with information necessary to enable you to make an informed decision on whether to vote for or against or abstain from voting the ordinary resolutions to be proposed at the AGM relating to the Continuing Connected Transactions. This supplemental circular should be read together with the circular of the Company dated 24 April 2023.

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

1. Energy Purchase Framework Agreement

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into the Energy Purchase Framework Agreement in relation to supply of electricity and steam by Shenzhen HEC Industrial.

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

Date	:	27 February 2023
Parties	:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to purchase electricity and steam power ("**Energy**") required for its production from Shenzhen HEC Industrial.
Payment method	:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
Conditions Precedent	:	The Energy Purchase Framework Agreement is conditional upon the satisfaction of the following conditions precedent: (i) the due execution of the Energy Purchase Framework Agreement by both parties; and (ii) having obtained approval from the Independent Shareholders at the AGM in relation to the Energy Purchase Framework Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

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

Pricing policy

Purchase price for Energy will be determined in accordance with (i) the reply letter from the Price Bureau of Yichang Municipal in relation to the electricity supply price in direct supply district by Yichang HEC Power Plant Co., Ltd.* (宜昌東陽光火力發電有限公司) ("**Yichang HEC Power Plant**"), a direct non-wholly owned subsidiary of Shenzhen HEC Industrial, from time to time; and (ii) the price for similar enterprises as stipulated in the price list for steam supply (i.e. with the range of RMB170 per ton to RMB225 per ton) to enterprise from 宜昌市招商局 (Yichang Investment Promotion Bureau)* from time to time, whereas:

(a) the electricity supply price in accordance with the benchmark price of RMB0.4161 per kWh, which was approved by the Hubei Provincial Price Bureau in the notice of reasonably adjustment of the electricity tariff structure pursuant to Hubei Provincial Price Bureau (E Jia Huan Zi [2017] No. 92) (鄂價環資[2017]92號文) and the letter from the Yidu Development and Reform Bureau in relation to the electricity supply price in direct supply district by Yichang HEC Power Plant, which stipulates that the power supply tariff in the direct supply zone shall not be lower than the benchmark on-grid tariff of Hubei Province for the same period and shall not be higher than 120% of the benchmark on-grid tariff of the Hubei Province for the same period; and

(b) Purchase price for steam supply price will be determined in accordance with the price for similar enterprises as stipulated in the price list for steam supply (i.e. with the range of RMB170 per ton to RMB225 per ton) to enterprise from 宜昌市招商局 (Yichang Investment Promotion Bureau)* from time to time. The steam supply price is determined with the range of approximately RMB130 per ton to RMB260 per ton, which were the price charged by Yichang HEC Power Plant and Yichang HEC Biochemical Manufacturing Co. Ltd.* (宜昌東陽光生化製藥有限公司), a subsidiary of Shenzhen HEC Industrial, to the Group historically.

    The operation planning executives will be responsible for checking the price offered by the Shenzhen HEC Industrial Group before placing a purchase order(s) with Shenzhen HEC Industrial Group to ensure such price is in line with the government-prescribed price (for electricity) and relevant government-prescribed price range (for steam).

Proposed annual caps and determination basis

The Company estimates that the proposed annual caps under the Energy Purchase Framework Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB50,400,000, RMB56,750,000 and RMB56,750,000, respectively. In considering the proposed annual caps under the Energy Purchase Framework Agreement, the Directors have taken into account a number of factors, including (1) the historical transaction amounts; (2) the Group's estimated production for each of the three years ending 31 December 2023, 2024 and 2025; and (3) the Group's business development.

Historical transaction amounts

The historical transaction amounts for the purchase of Energy from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2020, 2021 and 2022 are set out below:

	For the year ended 31 December 2020			For the year ended 31 December 2021			For the year ended 31 December 2022			As at 27 February 2023	As at 31 March 2023
	Annual Cap	Historical transaction amounts	Utilized rate	Annual Cap	Historical transaction amounts	Utilized rate	Annual Cap	Historical transaction amounts	Utilized rate	Historical transaction amount	Historical transaction amount
	RMB'000	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*
Historical transaction amounts for purchase of Energy from Shenzhen HEC Industrial Group	49,518.40	22,396.31	45.23%	55,700	35,679.06	64.06%	56,000	42,769	76.37%	6,211.30	9,930.94

Given that (i) the purchase of the Energy by the Group from Shenzhen HEC Industrial Group during the period from 1 January to 27 February 2023 were conducted by separate purchase orders and (ii) the terms and annual caps of the Energy Purchase Framework Agreement were finalised by both parties on 27 February 2023, the Board is of the view that the Company has complied with the requirements under Chapter 14A of the Listing Rules.

As shown in the above table, the utilization rates of historical annual caps were approximately 45.23%, 64.06% and 76.37% for the three years ended 31 December 2022 respectively. The utilization rates of annual caps increased year-on-year. In 2020, affected by the COVID-19 pandemic (the "**Pandemic**"), 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 Kewei has also declined due to the impact of the Pandemic. In addition, due to the impact of the Pandemic prevention and control policies, the factories of the Group were suspended from time to time, resulting in a significant decrease in the amount of procurement of electricity and steam between the Group and Shenzhen HEC Industrial Group, and thus the low utilization rate of annual caps. Since 2021, the Group's new insulin production plant has been put into production. The Group entrusted Yidu Construction to commence trial production for the Phase I HEC Project involved in innovative drugs and generic drugs in 2021, therefore the demand for steam and electricity of the Group would increase significantly. However, due to the spread of the Pandemic overseas and the resurgence of the Pandemic in the PRC, the construction work and production had been suspended from time to time, resulting in a significant decrease in the volume of procurement of electricity and steam, thus the utilization rates of annual caps were not as high as the expected. In 2022, the sales volume of pharmaceutical products showed a very good trend of recovery, which was mainly due to the overall stability of the Pandemic prevention and control in China, the increasingly normalized flow of personnel and daily social activities, and the significant recovery in the overall flow of people, number of diagnosis and treatment activities and prescription volume of frontline medical institutions, together with the Group's vigorous academic promotion and the expansion of new channels. Further, the Group's new workshops carries out production, and the electricity and steam consumption of the relevant projects will increase accordingly. Also, a number of products of the Group won the tender for centralized procurement, which in turn, the corresponding demand of electricity and steam for production of pharmaceutical products by the Group in 2022 would substantially increase.

In 2023, the proposed annual cap for the Group's purchase of Energy from Shenzhen HEC Industrial Group is expected to be increased by approximately 17.8% as compared to that of 2022, which is mainly due to the launch of new product lines in 2023 and the expected increase in the production of APIs or pharmaceutical products by the Group. The proposed annual cap for 2024 is 12.6% higher than 2023, which is mainly due to the launch of new product lines and the expected increase in the production of APIs or pharmaceutical products by the Group in 2024. It is not expected that the Group will launch any new product lines in 2025, so it is assumed that the demand for Energy will remain at the same level as compared to 2024.

Reasons for the transaction

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

The Board (including the independent non-executive Directors whose view is set out in "Letter from the Independent Board Committee" of this supplemental circular after taking into account the advice of the Independent Financial Advisor) is of the view that the Energy Purchase Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2. APIs Purchase Agreement

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into the APIs Purchase Agreement in relation to purchase of certain active pharmaceutical ingredients from Shenzhen HEC Industrial.

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

Date	:	27 February 2023
Parties	:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to purchase certain active pharmaceutical ingredients ("**APIs**") such as Aripiprazole, Rivaroxaban, Escitalopram Oxalate, Clarithromycin from Shenzhen HEC Industrial.
Payment method	:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
Conditions Precedent	:	The APIs Purchase Agreement is conditional upon the satisfaction of the following conditions precedent: (i) the due execution of the APIs Purchase Agreement by both parties; and (ii) having obtained approval from the Independent Shareholders at the AGM in relation to the APIs Purchase Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

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

Pricing policy

The operation planning executives will obtain quotation from Shenzhen HEC Industrial Group for each purchase and compare the quotations of similar products from at least two other independent third party suppliers to ensure the price competitiveness of products before placing a purchase order(s) with Shenzhen HEC Industrial Group.

In selecting the APIs suppliers, the Company will obtain quotations from Shenzhen HEC Industrial Group and at least two suppliers who are independent third parties. In addition, as the Company is also engaged in manufacturing of pharmaceutical products, it is well familiar with the market price of relevant APIs required for the production. The prices and terms offered by the Shenzhen HEC Industrial Group will be fair and reasonable, on normal commercial terms and not higher than those offered by independent third party suppliers to the Group.

Proposed annual caps and determination basis

The Company estimates that the proposed annual caps under the APIs Purchase Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB38,946,300, RMB53,786,800 and RMB75,442,100, respectively. In considering the proposed annual caps under the APIs Purchase Agreement, the Directors have taken into account a number of factors, including (1) the historical transaction amounts; (2) the Group's estimated market demand for each of the three years ending 31 December 2023, 2024 and 2025; and (3) the Group's business development strategies.

Historical transaction amounts

The historical transaction amounts for the purchase of APIs from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2020, 2021 and 2022 are set out below:

	For the year ended 31 December 2020			For the year ended 31 December 2021			For the year ended 31 December 2022			As at 27 February 2023	As at 31 March 2023
	Annual Cap	Historical transaction amounts	Utilized rate	Annual Cap	Historical transaction amounts	Utilized rate	Annual Cap	Historical transaction amounts	Utilized rate	Historical transaction amount	Historical transaction amount
	RMB'000	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*
Historical transaction amounts for purchase of APIs from Shenzhen HEC Industrial Group	9,000	8,803	97.81%	32,299.60	22,935.47	71.01%	40,000	29,777	74.44%	5,648.50	5,648.50

Given that (i) the purchase transactions of the APIs by the Group from Shenzhen HEC Industrial Group during the period from 1 January to 27 February 2023 were conducted by separate orders and (ii) the terms and annual caps of the APIs Purchase Agreement were finalised by both parties on 27 February 2023, the Board is of the view that the Company has complied with the requirements under Chapter 14A of the Listing Rules.

As shown in the above table, the utilization rates of historical annual caps were approximately 97.81%, 71.01% and 74.44% for the three years ended 31 December 2022 respectively. The utilization rates of the annual caps fluctuated. In 2021, the Group's Moxifloxacin Hydrochloride Tablets and Clarithromycin Tablet won the tender for the centralized procurement, respectively, and obtained approval for registration of work-in-progress products. The estimated procurement volume of APIs for the production of new products and registered work-in-progress products would also increase accordingly. However, due to the spread of the Pandemic overseas and the resurgence of the Pandemic in China, the number of sales volume of the Group's tender winning products decreased significantly, and the progress of the registered work-in-progress was suspended or delayed, resulting in a decrease in the volume of procurement of the Group's APIs with Shenzhen HEC Industrial Group, thus the utilization rates of annual caps were not as high as the expected. In 2022, for those products, such as Aripiprazole Tablets, Rivaroxaban tablets, Clarithromycin Tablets and Aripiprazole Orally Disintegrating Tablets, which won the tender of National Centralized Procurement of Pharmaceuticals, the Group needed to purchase relevant APIs from Shenzhen HEC Industrial Group for such production. In 2022, with the stabilization of the Pandemic and the recovery of market conditions, coupled with the increase in the Group's marketing and offline sales activities, the product sales volume increased significantly, and the demand for APIs of related products also increased, which in turn, the corresponding demand of APIs for production of pharmaceutical products by the Company substantially increased.

The proposed annual caps for each of the years from 2023 to 2025 for the Group's proposed procurement of APIs from Shenzhen HEC Industrial Group increased by approximately 30.79%, 80.63% and 153.36%, respectively, as compared to 2022. The increase are mainly due to the increase in the demand for APIs procurement of the relevant products as a result of the expected year-on-year increase in the supply of Rivaroxaban Tablets and Clarithromycin Tablets, the Group's approved products of centralized procurement, as compared to 2022.

Reasons for the transaction

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

The Board (including the independent non-executive Directors whose view is set out in "Letter from the Independent Board Committee" of this supplemental circular after taking into account the advice of the Independent Financial Advisor) is of the view that the APIs Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Packaging and Production Materials Purchase Framework Agreement

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into the Packaging and Production Materials Purchase Framework Agreement in relation to purchase of specific packaging materials and production materials ("**Packaging Materials**") for packaging and production of the drugs manufactured by the Group from Shenzhen HEC Industrial.

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

Date	:	27 February 2023
Parties	:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to purchase of the Packaging Materials for packaging and production of the drugs manufactured by the Group from Shenzhen HEC Industrial.
Payment method	:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days after receiving the Packaging Materials and passing the acceptance tests and receipt of the invoice issued by Shenzhen HEC Industrial.
Conditions Precedent	:	The Packaging and Production Materials Purchase Framework Agreement is conditional upon the satisfaction of the following conditions precedent: (i) the due execution of the Packaging and Production Materials Purchase Framework Agreement by both parties; and (ii) having obtained approval from the Independent Shareholders at the AGM in relation to the Packaging and Production Materials Purchase Framework Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

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

Pricing policy

The operation planning executives will obtain quotation from Shenzhen HEC Industrial Group for each purchase and compare the quotations of similar products from at least two other independent third party suppliers to ensure the price competitiveness of products before placing a purchase order(s) with Shenzhen HEC Industrial Group.

In selecting suppliers of the Packaging Materials, the Company will obtain quotations from Shenzhen HEC Industrial and at least two suppliers who are independent third parties. The prices and terms offered by the Shenzhen HEC Industrial will be fair and reasonable, on normal commercial terms and no less favourable than those offered by independent third party suppliers to the Group.

Proposed annual caps and determination basis

The Company estimates that the proposed annual caps under the Packaging and Production Materials Purchase Framework Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB40,600,000, RMB40,600,000 and RMB40,600,000, respectively. In considering the proposed annual caps under the Packaging and Production Materials Purchase Framework Agreement, the Directors have taken into account a number of factors, including (1) the historical transaction amounts; and (2) the Group's estimated demand for each of the three years ending 31 December 2023, 2024 and 2025.

Historical transaction amounts

The historical transaction amounts for purchase of the Packaging Materials from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2020, 2021 and 2022 are set out below:

	For the year ended 31 December 2020			For the year ended 31 December 2021			For the year ended 31 December 2022			As at 27 February 2023	As at 31 March 2023
	Annual Cap	Historical transaction amounts	Utilized rate	Annual Cap	Historical transaction amounts	Utilized rate	Annual Cap	Historical transaction amounts	Utilized rate	Historical transaction amount	Historical transaction amount
	RMB'000	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*
Historical transaction amounts for purchase of Packaging Materials from Shenzhen HEC Industrial Group	62,000	24,659	39.77%	24,150	12,876.41	53.32%	45,000	40,229	89.39%	6,526.10	6,526.10

Given that (i) the purchase of the Packaging Materials by the Company from Shenzhen HEC Industrial Group during the period from 1 January to 27 February 2023 were conducted by separate orders and (ii) the terms and annual caps of the Packaging and Production Materials Purchase Framework Agreement were finalised by both parties on 27 February 2023, the Board is of the view that the Company has complied with the requirements under Chapter 14A of the Listing Rules.

As shown in the above table, the utilization rates of historical annual caps were approximately 39.77%, 53.32% and 89.39% for the three years ended 31 December 2022 respectively. The utilization rates of the annual caps increased significantly. In 2020, the low utilization rates of the annual caps were attributed to the fact that the mobility of China's domestic population has declined due to the impact of the Pandemic, and the number of medical activities, prescriptions and sales volume of drugs in hospitals have also decreased accordingly, and thus the significant decrease in the sales volume of the Group's products, resulting in a decrease in the volume of procurement for packaging materials and production materials required for the Group's products. In 2021, the sales volume of the Group's core product Kewei would gradually recover and a number of the Group's products, such as Emitasvir Phosphate Capsules and Recombinant Human Insulin Injection, had been approved for marketing and won the tender for centralized procurement, and the use of packaging materials and chemical materials and hardware materials for the relevant pharmaceutical products would increase. However, due to the spread of the Pandemic overseas and the resurgence of the Pandemic in China, the sales volume of the Group's products decreased, resulting in a decrease in the amount of procurement of packaging materials and production materials required for the products, thus the utilization rates of annual caps were not as high as the expected.

In 2022, the sales volume of pharmaceutical products showed a very good trend of recovery, which was mainly due to the overall stability of the Pandemic prevention and control in China, the increasingly normalized flow of personnel and daily social activities, and the significant recovery in the overall flow of people, number of diagnosis and treatment activities and prescription volume of frontline medical institutions, together with the Group's vigorous academic promotion and the expansion of new channels. Further, following the recovery of market conditions, the sales volume of the Group's core product Kewei increased significantly, and the amount of packaging materials and production materials required would also increase accordingly. Based on the highest procurement volume won in the tender and the sales volume promoted by the Group, the overall sales for the products increased significantly, and the amount of chemical materials and hardware materials required for packaging and production also increased significantly accordingly, which in turn, the corresponding demand of specific packaging materials and production materials for packaging and production of the drugs manufactured by the Group would substantially increase.

The proposed annual caps for the Group's purchase of Packaging Materials from Shenzhen HEC Industrial Group from 2023 to 2025 are basically the same as that in 2022, which are mainly due to the increasingly normalized flow of personnel and daily social activities, and the significant recovery in the overall flow of people, number of diagnosis and treatment activities and prescription volume of frontline medical institutions in the fourth quarter of 2022.

Reasons for the transaction

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

The Board (including the independent non-executive Directors whose view is set out in "Letter from the Independent Board Committee" of this supplemental circular after taking into account the advice of the Independent Financial Advisor) is of the view that the Packaging and Production Materials Purchase Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. Equipment Purchase and Civil Construction Framework Agreement

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into the Equipment Purchase and Civil Construction Framework Agreement in relation to purchase of certain equipment and civil construction services from Shenzhen HEC Industrial.

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

Date	:	27 February 2023
Parties	:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to purchase certain equipment and civil construction services ("**Equipment and Civil Construction Services**") from Shenzhen HEC Industrial.
Payment method	:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.

Conditions Precedent	:	The Equipment Purchase and Civil Construction Framework Agreement is conditional upon the satisfaction of the following conditions precedent: (i) the due execution of the Equipment Purchase and Civil Construction Framework Agreement by both parties; and (ii) having obtained approval from the Independent Shareholders at the AGM in relation to the Equipment Purchase and Civil Construction Framework Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

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

Pricing policy

The price charged by Shenzhen HEC Industrial to the Group for the purchase of equipment adopts a ‘‘cost-plus’’ mechanism in which a range of 10%-15% of the profit is charged. The price of the equipment will be no less favourable than those offered by independent third party suppliers to the Group.

The price charged by Shenzhen HEC Industrial to the Group for the civil construction services adopts a ‘‘cost-plus’’ mechanism in which a range of 5%-10% of the profit is charged.

The operation planning executives and other relevant departments such as the production department and the finance department will analyse the cost of relevant products / services (or to procure Shenzhen HEC Industrial Group to provide cost of relevant products / services) to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. 10% to 15% for the purchase of equipment and 5% to 10% for the purchase of civil construction services) before placing a purchase order(s) with Shenzhen HEC Industrial Group.

Proposed annual caps and determination basis

The Company estimates that the proposed annual caps under the Equipment Purchase and Civil Construction Framework Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB27,050,000, RMB7,900,000 and RMB7,900,000, respectively. In considering the proposed annual caps under the Equipment Purchase and Civil Construction Framework Agreement, the Directors have taken into account a number of factors, including (1) the business development of the Group; (2) the depreciation rate of the workshop equipment; and (3) the estimated total number of equipment required to be purchased in each of 2023, 2024 and 2025 as estimated by the heads of plants of the Company multiplied by the unit price of the equipment.

Historical transaction amounts

The historical transaction amounts for the purchase of Equipment and Civil Construction Services from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2020, 2021 and 2022 are set out below:

	For the year ended 31 December 2020			For the year ended 31 December 2021			For the year ended 31 December 2022			As at 27 February 2023	As at 31 March 2023
	Annual Cap	Historical transaction amounts	Utilized rate	Annual Cap	Historical transaction amounts	Utilized rate	Annual Cap	Historical transaction amounts	Utilized rate	Historical transaction amount	Historical transaction amount
	RMB'000	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*
Historical transaction amounts for purchase of Equipment and Civil Construction Services from Shenzhen HEC Industrial Group	179,863	105,748	58.79%	62,943.05	41,727.31	66.29%	37,000	24,569	66.40%	180.30	220.00

Given that (i) the purchase of the Equipment and Civil Construction Services by the Group from Shenzhen HEC Industrial Group during the period from 1 January to 27 February 2023 were conducted by separate orders and (ii) the terms and annual caps of the Equipment Purchase and Civil Construction Framework Agreement were finalised by both parties on 27 February 2023, the Board is of the view that the Company has complied with the requirements under Chapter 14A of the Listing Rules.

As shown in the above table, the utilization rates of historical annual caps were approximately 58.79%, 66.29% and 66.40% for the three years ended 31 December 2022 respectively. The utilization rates of annual caps increased steadily. In 2020, the low utilization rates of annual caps were due to the impact of the Pandemic and the domestic Pandemic prevention and control policies, the Group's generic drug production plants and insulin plants had been suspended from time to time, and some civil construction projects had slowed down. In 2021, due to the impact of the recurrence of the Pandemic in China and the domestic Pandemic prevention and control policies, the progress of some of the Group's civil engineering construction projects had slowed down and had to be delayed in the completion to 2022 and delayed in settlement of the relevant amount, thus the utilization rates of annual caps were not as high as the expected. In view of the impact of the Pandemic in previous years, some of the Group's civil engineering construction projects were suspended or slowed down from time to time, resulting in the delay of completion of the relevant projects to 2022 and delay of settlement of the relevant amount. Therefore, in 2022, the Group mainly undertook projects that were not completed in previous years. In addition, a number of projects of the Group in 2021 were mainly at the construction stage, including custom-made workshop No. 3, recycling workshop equipment, other equipment and sporadic projects. In 2022, as most of the projects were put into use, sporadic maintenance was required, and additional transaction amounts were incurred.

The proposed annual caps for the Group's purchases of Equipment and Civil Construction Services from Shenzhen HEC Industrial Group in 2023 included (i) the historical outstanding purchase amount of RMB5,500,000 for equipment, which is expected to be settled in FY2023, (ii) the estimated transaction amount of RMB5,800,000 for the purchase of equipment in 2023, (iii) the outstanding amount of RMB13,650,000 for civil construction services, which is expected to be settled in 2023, and (iv) the estimated transaction amount of RMB2,100,000 for the purchase of civil construction services in 2023.

The Group's proposed purchase of Equipment and Civil Construction from Shenzhen HEC Industrial Group in 2024 and 2025 includes (i) the estimated transaction amount of RMB5,800,000 for purchase of Equipment, and (ii) the estimated transaction amount of RMB2,100,000 for civil construction, which mainly refers to the actual purchase amount made by the Group to Shenzhen HEC Industrial Group in 2022.

Reasons for the transaction

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

The Board (including the independent non-executive Directors whose view is set out in "Letter from the Independent Board Committee" of this supplemental circular after taking into account the advice of the Independent Financial Advisor) is of the view that the Equipment Purchase and Civil Construction Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. Entrusted Processing Framework Agreement

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into the Entrusted Processing Framework Agreement in relation to obtaining the pharmaceutical processing services provided by Shenzhen HEC Industrial.

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

Date	:	27 February 2023
Parties	:	the Company (for itself and on behalf of its subsidiaries); and

		Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to purchase processing services (the ‘‘**Processing Services**’’) for its certain pharmaceutical products, including Olmesartan Tablets, Moxifloxacin Tablets, Clarithromycin Tablets, Aripiprazole Tablets, Levofloxacin Tablets, Rivaroxaban Tablets, Duloxetine Enteric-coated Capsules, Escitalopram Oxalate Tablets, Xadiafil Tablets, Aripiprazole Orally Disintegrating Tablets, Entacapone Tablets, Rongliflozin and other APIs from Shenzhen HEC Industrial.
Payment method	:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
Conditions Precedent	:	The Entrusted Processing Framework Agreement is conditional upon the satisfaction of the following conditions precedent: (i) the due execution of the Entrusted Processing Framework Agreement by both parties; and (ii) having obtained approval from the Independent Shareholders at the AGM in relation to the Entrusted Processing Framework Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

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

Pricing policy

The price of the processing fee payable by the Group to Shenzhen HEC Industrial will be no less favourable than those offered by independent third party processing service providers and a “cost-plus” mechanism is adopted. In addition to the necessary costs and expenses incurred for the processing services, Shenzhen HEC Industrial Group charges the Group an additional fee within approximately 10%-20% of the processing fee.

The procurement department and other relevant departments such as the finance department will analyse the cost of relevant services (or to procure Shenzhen HEC Industrial Group to provide cost of relevant products) to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. within approximately 10% to 20% of the processing fee) before placing a purchase order(s) with Shenzhen HEC Industrial Group.

Proposed annual caps and determination basis

The Company estimates that the proposed annual caps under the Entrusted Processing Framework Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB94,805,500, RMB108,832,000 and RMB139,468,200, respectively. In considering the proposed annual caps under the Entrusted Processing Framework Agreement, the Directors have taken into account a number of factors, including (1) increasing demand due to successful bidding under centralized volume-based drug procurement; and (2) the Group's business development strategies. As there is a significant increase in successful bidding under centralized volume-based drug procurement of the Company in 2022 than 2021 in general, the Company determines the maximum transaction amount for each of the three years ending 31 December 2023, 2024 and 2025 according to the growth rate of the relevant products in general.

Historical transaction amounts

The historical transaction amounts for entrusting of Shenzhen HEC Industrial Group to carry out processing services for its certain pharmaceutical products for each of the three years ended 31 December 2020, 2021 and 2022 are set out below:

	For the year ended 31 December 2020			For the year ended 31 December 2021			For the year ended 31 December 2022			As at 27 February 2023	As at 31 March 2023
	Annual Cap	**Historical transaction amounts**	**Utilized rate**	**Annual Cap**	**Historical transaction amounts**	**Utilized rate**	**Annual Cap**	**Historical transaction amounts**	**Utilized rate**	**Historical transaction amount**	**Historical transaction amount**
	RMB'000	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*
Historical transaction amounts for entrusting of Shenzhen HEC Industrial Group to carry out Processing Services	119,523.30	81,149	67.89%	130,330.70	52,628.78	40.38%	103,066.2	73,140	70.96%	12,487.40	12,487.40

Given that (i) the processing services of certain pharmaceuticals products entrusted by the Group to Shenzhen HEC Industrial Group during the period from 1 January to 27 February 2023 were conducted by separate orders and (ii) the terms and annual caps of the Entrusted Processing Framework Agreement were finalised by both parties on 27 February 2023, the Board is of the view that the Company has complied with the requirements under Chapter 14A of the Listing Rules.

As shown in the above table, the utilization rates of historical annual caps were approximately 67.89%, 40.38% and 70.96% for the three years ended 31 December 2022 respectively. The utilization rates of the annual caps fluctuated. In 2020, affected by the

Pandemic, the mobility of China's domestic population had decreased, and the number of medical activities, prescriptions and sales volume of drugs in hospitals had also decreased accordingly. The Group's core product, Kewei, is a prescription drug mainly sold in hospitals of different tiers, and its sales volume had also decreased due to the impact of the Pandemic. In addition, the Group's sales volume for some centralized procurement products fell, resulting in a significant decrease in the service amount of the Group's entrusted products to Shenzhen HEC Industrial Group, which fell below the expected annual caps. In 2021, the market demand for the relevant pharmaceutical products would increase as a result of the Group's products winning the tender for centralized procurement. Also, the new product, Rongliflozin L-Pyroglutamic Acid, had entered the phase III clinical trial, and it was necessary to entrust Shenzhen HEC Industrial Group to process the APIs. However, due to the spread of the overseas Pandemic and the recurrence of the Pandemic in China, the sales volume of the Group's tender winning products decreased significantly, and the clinical trial progress of new products slowed down, and thus the low utilization rate of annual caps. Upon the Group's products won the tender for centralized procurement and approved to launch in 2022, with the market recovery and the increase in demand for related products, the demand for entrusting Shenzhen HEC Industrial Group for processing services has also increased.

The significant increase in the proposed annual cap for 2023 as compared to that for 2022 is mainly based on the rate of change in the average monthly supply of entrusted processing related approved and newly approved products of centralized procurement in 2022 as compared to that for 2021. Meanwhile, the proposed annual cap amounts for 2024 and 2025 are based on the rate of change of similar supply of the relevant products.

Reasons for the transaction

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

The Board (including the independent non-executive Directors whose view is set out in "Letter from the Independent Board Committee" of this supplemental circular after taking into account the advice of the Independent Financial Advisor) is of the view that the Entrusted Processing Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

1. Equipment Sales Framework Agreement

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into the Equipment Sales Framework Agreement in relation to the sale of specific pharmaceutical production and inspection equipment (including Glatter fluidized bed), quality inspection equipment and other equipment by the Company to Shenzhen HEC Industrial.

The principal terms of the Equipment Sales Framework Agreement are as follows:

Date	:	27 February 2023
Parties	:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 February 2023 to 31 December 2023
Nature of transaction	:	The Company agreed to sell specific pharmaceutical production equipment (including Glatter fluidized bed), quality inspection equipment and other equipment (the "**Equipment**") to Shenzhen HEC Industrial.
Payment method	:	Shenzhen HEC Industrial will pay the corresponding amount to the Company (via telegraphic transfer) within 90 days upon receipt of the invoice issued by the Company.
Conditions precedent	:	The Equipment Sales Framework Agreement is conditional upon the satisfaction of the following conditions precedent: (i) the due execution of the Equipment Sales Framework Agreement by both parties; and (ii) having obtained approval from the Independent Shareholders at the AGM in relation to the Equipment Sales Framework Agreement and the transactions contemplated thereunder and the proposed annual cap by the Company in accordance with the Listing Rules.

Pricing policy

The price of the Equipment under the Equipment Sales Framework Agreement ("**Selling Price**") will be determined with reference to the then purchase price of related Equipment (the "**Original Price**") by the Company.

The Company will enquire the price of new equipment currently offered by the then independent supplier, and if (i) the difference between such price and the Original Price is less than 10%, the Selling Price would be the same as the Original Price; (ii) the difference between such price and the Original Price is more than 10%, the Selling Price will be the higher of such price or the Original Price.

Proposed annual cap and determination basis

The Company estimates that the proposed annual cap under the Equipment Sales Framework Agreement for the year ending 31 December 2023 is RMB30,496,500. In considering the proposed annual cap under the Equipment Sales Framework Agreement, the Directors have taken into account a number of factors, including (1) the business development of the Company; (2) the total number of relevant Equipment purchased by the Company multiplied by the unit price of the Equipment; and (3) the business development needs of Shenzhen HEC Industrial.

Historical transaction amounts

There was no historical amount for the sale of equipment from the Company as at 31 March 2023.

Reasons for the transaction

Some of the previously purchased equipment is idle due to project delays and industrial adjustments of the Company's biological preparation factory, and Shenzhen HEC Industrial needs the relevant Equipment for its business development. Therefore, the sales of the relevant Equipment are conducive to reducing the risk of depreciation of the Company's idle Equipment, and also meet the needs of Shenzhen HEC Industrial's business development.

The Board (including the independent non-executive Directors whose view is set out in "Letter from the Independent Board Committee" of this supplemental circular after taking into account the advice of the Independent Financial Advisor) is of the view that the Equipment Sales Framework Agreement and the transactions contemplated thereunder (including the proposed annual cap) are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The procurement department of the Company will seek quotation from the then suppliers on the price of the new equipment before selling them to ensure there is no material difference between the price quoted and the Original Price. Therefore, the Board is of the view that the proposed annual caps are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

2. Entrusted Production and Inspection Services Framework Agreement

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into the Entrusted Production and Inspection Services Framework Agreement in relation to the provision of production and testing services, which includes inspection and testing, production and other services by the Company to Shenzhen HEC Industrial.

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

Date	:	27 February 2023
Parties	:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term	:	From 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to provide Production and Inspection Services to Shenzhen HEC Industrial. The scope of the entrusted Production and Inspection Services includes provision of production, inspection and testing services to Dong An Tai, Dong An Qiang, Dong An Rui (東安瑞), Dong Tong Shen (東通神), other generic drugs, other new drugs, insulin degludec/insulin aspart, insulin degludec/liraglutide injection and intermediates of generic drugs ("**Production and Inspection Services**").
Payment method	:	Shenzhen HEC Industrial will pay the corresponding amount to the Company (via telegraphic transfer) within 90 days upon receipt of the invoice issued by the Company.
Conditions Precedent	:	The Entrusted Production and Inspection Services Framework Agreement is conditional upon the satisfaction of the following conditions precedent: (i) the due execution of the Entrusted Production and Inspection Services Framework Agreement by both parties; and (ii) having obtained approval from the Independent Shareholders at the AGM in relation to the Entrusted Production and Inspection Services Framework Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

Pricing policy

The entrusted production services fee charged by the Group to Shenzhen HEC Industrial will be determined based on the price of actual entrusted projects and a "cost-plus" mechanism is adopted, in which a range of 10%–20% of the profit is charged. The testing services fee charged by the Group to Shenzhen HEC Industrial will be determined based on the price of actual entrusted research projects and a "cost-plus" mechanism is adopted, in which a range of 10%–15% of the profit is charged.

Proposed annual caps and determination basis

The Company estimates that the proposed annual caps under the Entrusted Production and Inspection Services Framework Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB105,230,000, RMB68,992,000 and RMB49,250,000, respectively. In considering the proposed annual caps under the Entrusted Production and Inspection Services Framework Agreement, the Directors have taken into account a number of factors, including (1) the Group's production capacity for the three years ending 31 December 2023, 2024 and 2025; and (2) the demand from the Shenzhen HEC Industrial Group. In 2023, Shenzhen HEC Industrial entrusted the Group with a substantial increase in the production and testing of new projects, such as the testing and inspection project of Dulaglutide Phase III clinical samples, and the testing and entrusted processing of related innovative drugs and generic drugs in the research and development stage, hence the Company has significantly increased the proposed annual cap for the year ending 31 December 2023. In 2024 and 2025, it is expected that some pharmaceutical products of Shenzhen HEC Industrial will be approved to launch with a significant reduction in the demand for testing projects and entrusted production projects for these pharmaceutical products at the corresponding research and development stage, therefore the amounts of proposed annual caps for each of the two years ending 31 December 2024 and 2025 will be less than the proposed annual cap for the year ending 31 December 2023.

Historical transaction amounts

The transaction amounts for the Entrusted Production and Inspection Services Framework Agreement between the Group and Shenzhen HEC Industrial Group for each of the three years ended 31 December 2020, 2021 and 2022 are set out below:

	For the year ended 31 December 2020			For the year ended 31 December 2021			For the year ended 31 December 2022			As at 27 February 2023	As at 31 March 2023
	Annual Cap	Historical transaction amounts	Utilized rate	Annual Cap	Historical transaction amounts	Utilized rate	Annual Cap	Historical transaction amounts	Utilized rate	Historical transaction amount	Historical transaction amount
	RMB'000	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*
Historical transaction amounts for provision of Production and Inspection Services to Shenzhen HEC Industrial Group	–	–	–	74,296.26	4,971.01	6.69%	59,000	39,843	67.53%	0.00	0.00

Given that (i) the Production and Inspection Services provided by the Group to Shenzhen HEC Industrial Group during the period from 1 January to 27 February 2023 were conducted by separate orders and (ii) the terms and annual caps of the Entrusted Production and Inspection Services Framework Agreement were finalised by both parties on 27 February 2023, the Board is of the view that the Company has complied with the requirements under Chapter 14A of the Listing Rules.

As shown in the above table, the utilization rates of historical annual caps were approximately 6.69% and 67.53% for the years ended 31 December 2022 respectively. The utilization rates of the annual caps increased significantly. In 2021, due to the impact of the repeated Pandemic in China, the progress of some of the research and development projects of Shenzhen HEC Industrial Group has been adjusted or delayed. Such as the progress of the projects of Shenzhen HEC Industrial Group, including Dong Jian Ze (東健澤) and Dong An Tai (東安泰), had been adjusted and delayed in the completion to 2022 and delayed in settlement of the relevant amount, and the Group had to complete the registration, verification and other batches of production. In addition, all raw materials used in the original project were purchased by the Group, and the actual implementation of the project was directly provided by Shenzhen HEC Industrial Group. The Group only purchased some auxiliary materials, so the utilization rates of the annual caps were low. In 2022, the Group provided more production and inspection services for Dong An Tai and Dong An Qiang to Shenzhen HEC Industrial Group, and the Group's new production workshop has been put into operation and to be commissioned to produce and test more products. Therefore, the utilization rates of the annual caps have increased significantly as compared to last year.

The proposed annual caps for 2023 are mainly attributable to the Group's proposed provision of production, testing and inspection services to Shenzhen HEC Industrial Group, including (i) testing and inspection services for Dulaglutide Phase III clinical samples with an estimated amount of RMB32,000,000; (ii) production and testing services for innovative drug products Donganqiang (東安强), Dong Tong Shen (東通神), Dong Tong Shun (東通順) and Dong An Rui (東安瑞) as well as generic drug products Galantamine and Baloxavir, at the R&D stage with an aggregate amount of approximately RMB69,200,000; and (iii) testing and inspection services for other generic drugs and intermediates with an aggregate amount of approximately RMB4,030,000.

The proposed annual caps for 2024 are mainly attributable to the proposed provision of production, testing and inspection services by the Group to Shenzhen HEC Industrial Group, including (i) production and testing services for innovative drug products Dong Tong Shen (東通神), Dong Tong Shun (東通順) and Dong An Rui (東安瑞) as well as generic drug products Galantamine and Baloxavir, at the R&D stage with an aggregate amount of approximately RMB59,682,000, (ii) testing and inspection services for other generic drugs and intermediates with an aggregate amount of approximately RMB4,030,000, and (iii) production services at the R&D stage for insulin degludec/insulin aspart and insulin degludec/liraglutide injection with an aggregate amount of approximately RMB5,280,000.

The proposed annual caps for 2025 are mainly attributable to the proposed provision of production, testing and inspection services by the Group to Shenzhen HEC Industrial Group, including production and testing services for innovative drug products Dong Tong Shen (東通神), Dong Tong Shun (東通順) and Dong An Rui (東安瑞) as well as other new pharmaceutical intermediate and generic drug products Galantamine and Baloxavir, at the R&D stage with an aggregate amount of approximately RMB49,250,000.

Reasons for the transaction

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

The Board (including the independent non-executive Directors whose view is set out in "Letter from the Independent Board Committee" of this supplemental circular after taking into account the advice of the Independent Financial Advisor) is of the view that the Entrusted Production and Inspection Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

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

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the proposed annual caps of each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement when aggregated with the transactions entered into between the Group and Shenzhen HEC Industrial Group in the preceding 12 months pursuant to Rule 14A.81 of the Listing Rules exceeds 5%, such transactions and the proposed annual caps contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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 Group by virtue of his position as a director and general manager of Shenzhen HEC Industrial, and has abstained from voting on the Board resolutions approving the transactions contemplated between the Group and Shenzhen HEC Industrial Group.

The Group has from time to time conducted certain procurement, entrust processing, sales and leasing transactions with Shenzhen HEC Industrial Group since its listing. In response to the Continuing Connected Transactions between the Group and Shenzhen HEC Industrial Group for the three years ending 31 December 2025, both parties has been communicating with each other for the terms of the Continuing Connected Transactions and proposed annual caps since November 2022 and such terms were not finalized until February 2023. Prior to entering into the Continuing Connected Transaction Agreements, the Group has conducted several transactions with Shenzhen HEC Industrial Group by purchase orders. Despite of the Group has conducted several Continuing Connected Transactions with Shenzhen HEC Industrial Group by purchase orders, based on the latest available figures as at the Latest Practicable Date, the transactions entered into between both parties accounted for less than 5% of the applicable percentage ratio under the Listing Rules. The Company undertakes that the Continuing Connected Transactions entered into between both parties account for less than 5% of the applicable percentage ratio under the Listing Rules before obtaining Shareholders' approval.

The following action will be taken by the Company to mitigate and remedy such non-compliance incidents, including will seek legal advice from legal advisers and company secretary of the Company to provide with both parties the regulatory requirements for conducting transactions with connected persons, in the form of a notice or guidance letter.

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

INTERNAL CONTROL LEVEL

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

(1) The Company will regularly review the transactions to be entered into with Shenzhen HEC Industrial Group to identify any transactions that maybe at risk of exceeding the annual caps and any measures to be introduced in response to such transactions. The finance department is responsible for monitoring the transaction amounts under the Continuing Connected Transactions at the end of each month, reporting to the Board regarding, among other things, implementation of the Continuing Connected Transactions and the actual monetary amount of transactions conducted under the Continuing Connected Transactions at the end of each quarter between January and September, as well as each month from October to December (or more frequently if necessary). In the event that the total transaction amount reaches 80% of the annual caps or is expected to exceed the annual caps in the next 2 months, the personnel of the finance department shall notify the Board immediately to determine the appropriate action to be taken, such as re-calculating the annual caps for the relevant year. The Company will commence the process to increase annual caps (including to obtain the Shareholders' approval) and leave approximately 2 to 3 months to complete such process;

(2) The Company will commence the renewal procedure with Shenzhen HEC Industrial Group at least three months prior to the expiry of Continuing Connected Transaction Agreements and will also seek legal advice from legal advisers and company secretary of the Company to provide with Shenzhen HEC Industrial Group the regulatory requirements for conducting transactions with connected persons, in the form of a notice or guidance letter;

(3) The business planning executives will be responsible for the pricing management and will guide various departments and units to establish the procedures and mechanism of professional price management, so as to ensure that the pricing standard is fair and reasonable, and conforms with the market principle. Market price will be obtained through, among other things, open tenders/quotations from independent third party suppliers and service providers, recent transaction prices of the Company with independent third parties, pricing information obtained through subscription service and researches on industry websites. The market price information will be circulated by the procurement department to other departments of the Company to enable them to determine the prices for the Continuing Connected Transactions;

(4) The operation planning executives will (i) regularly compare with the Group's price list, so as to ensure that the selling price charged to Shenzhen HEC Industrial Group is at least on the same basis and rate of similar products sold by the Group to independent third parties; and (ii) obtain quotation from Shenzhen HEC Industrial Group for each purchase and compare the quotations of similar products and services from at least two other independent third party suppliers to ensure the price competitiveness of products and services before placing a purchase order(s) with Shenzhen HEC Industrial Group;

(5) To determine the Selling Price of the Equipment under the Equipment Sales Framework Agreement, the Company will enquire the price of new equipment currently offered by the then independent supplier, and if the difference between such price and the Original Price is less than 10%, the Selling Price would be the same as the Original Price;

(6) The Company has formulated a series of internal control measures and policies to ensure that the Continuing Connected Transactions will be carried out in accordance with the terms of each of the agreement of the Continuing Connected Transactions and the relevant pricing principles. The finance department of the Company will inform procurement department the amount of the proposed annual caps of the Continuing Connected Transactions and monitor from time to time if such annual caps is to be exceeded. The finance department will also approve the payment to be made to Shenzhen HEC Industrial Group to ensure that the payment terms are in line with the relevant agreement of the Continuing Connected Transactions;

(7) The independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the Continuing Connected Transactions in accordance with the requirements of the Listing Rules;

(8) To organise training twice a year and circulate compliance guidance and materials on a regular basis to staff responsible for handling connected transactions so as to remind and refresh their knowledge and understanding on the requirements of the Listing Rules, especially the rules on connected transactions;

(9) To provide the management of the Company with a list of the connected persons of the Company on a regular basis and making monthly updates thereto;

(10) To enhance the coordination and communication among various departments and subsidiaries of the Company responsible for reporting, monitoring and handling connected transactions, such as provision of regular trainings, sharing of information among operations department, finance department and procurement department; and

(11) To monitor the transaction amounts of Continuing Connected Transactions with connected persons as well as the transaction amounts for any other transactions to be conducted with connected persons, such as the procurement department will seek advice from financial department and office of the Board on transaction limit before entering into individual agreements with connected persons, to ensure that better coordination and reporting arrangements of connected transactions will be carried out among various departments of the Company responsible for reporting, monitoring and handling connected transactions.

The Board is of the view that the above methods and procedures can ensure that the pricing and other contractual terms for the Continuing Connected Transactions by the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholder(s) as a whole, and that the Continuing Connected Transactions are conducted as agreed under the Continuing Connected Transaction Agreements, respectively, and in compliance with the requirements under Chapter 14A of the Listing Rules.

Reliance on Shenzhen HEC Industrial Group

As the proposed annual caps for the continuing connected transactions from 2021 to 2025 between the Group and Shenzhen HEC Industrial Group fluctuate, it is generally anticipated that the Continuing Connected Transactions between the Group and Shenzhen HEC Industrial Group are on a decreasing trend.

In 2022, the Group has continued its efforts in diversifying its customers suppliers throughout years of the Group's development, and it is the Group's intention to continue to broaden its customer base and gain wider market recognition in the pharmaceutical industry.

In this connection, the Group has been expanding its sales team to actively search for new clients, such as medical institutions. At the same time, the Group provided extensive training to its sales team in particular skills to approach and draw in new clients. The sales team has been consolidating its path in academic promotion of core products and further expand the primary healthcare market to reach potential clients regularly. For the two years ended 31 December 2022, to the best of the Directors' knowledge, in addition to the sales transactions of pharmaceutical products with Shenzhen HEC Industrial Group, the Company has established business relationships with 549 independent third party distributors for the sales of pharmaceutical products in 2022, representing an increase of 39 new distributors as compared to 510 independent third party distributors in 2021. The Company regularly updates its database of information of independent third party distributors such as their procurement amount of certain pharmaceuticals and financial information so that our sales team can develop better strategies to pitch our products.

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

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

To the best of the Directors' knowledge, in addition to conduct transactions of pharmaceutical products with Shenzhen HEC Industrial Group, the Company also purchased pharmaceutical products from 17 independent suppliers in 2022, representing an increase of 5 independent suppliers to establish new business relationships as compared to 12 independent suppliers in 2021. The Company regularly updates its database of information of suppliers such as their product mix and production capacity.

The transaction amount between the Group and Shenzhen HEC Industrial Group in 2022 accounted for 7.22% of the Group's operating income, representing a significant decrease as compared to 20.08% of the Group's operating income in 2021, which demonstrated that the Group has been making continuous progress in reducing its reliance on transactions with Shenzhen HEC Industrial Group in the past two years.

The Directors consider that the entering into the Continuing Connected Transaction Agreements enables the Group to generate revenue from a recurring customer/supplier, while providing a framework to protect the interests of the Group, and allows the Group to secure a stable source of products and services supplies of which the Group is satisfied with the quality. The relevant products and services provided by Shenzhen HEC Industrial Group to the Group under the Continuing Connected Transaction Agreements can be easily replaceable by similar readily available products and services offered by independent third parties in the market except the purchase of Energy from Shenzhen HEC Industrial Group under the Energy Purchase Framework Agreement. The Group has been maintaining certain electrical grid and steam pipes for transfer of Energy purchased from Shenzhen HEC Industrial Group for long, the Board is of the view that it is not cost effective and burdensome to purchase Energy from another independent third party as the application for establishing new electrical grid and steam pipe from government is burdensome and the set up cost is huge.

In view of the sustainable and sound development of Shenzhen HEC Industrial Group, the Group and Shenzhen HEC Industrial Group will maintain long-term and stable cooperative relationships for mutual benefits. Accordingly, the Group does not expect any material adverse change to the well-established relationship between the Group and Shenzhen HEC Industrial Group in the foreseeable future. The daily operation of the Group rests primarily with its Board and the senior management. The Group has also maintained its own financial team and procurement team and has capability for independently sell or purchase products and services to or from independent third parties. There is no management, financial or operational reliance on Shenzhen HEC Industrial Group.

As the Continuing Connected Transaction Agreements do not impose any obligation on the part of the Group to sell or purchase a committed amount of products and services to or from the Shenzhen HEC Industrial Group, or restrict the Group from selling products and services to or purchasing products and services from other independent third parties. In light of the aforesaid reasons, the Directors are of the view that the Group does not have any reliance on Shenzhen HEC Industrial Group.

INFORMATION OF THE PARTIES

The Company

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

Shenzhen HEC Industrial

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

AGM

The AGM will be held as originally scheduled by the Company at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC at 10:00 a.m. on Friday, 2 June 2023. The Supplemental AGM Notice sets out the additional resolutions for Shareholders to consider and, if thought fit, to approve the Continuing Connected Transaction Agreements and their respective proposed annual caps, and it should be read together with the notice of AGM of the Company dated 24 April 2023.

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 AGM to approve the Continuing Connected Transaction Agreements and their respective proposed annual caps.

A supplemental notice convening the AGM, together with the supplemental form of proxy for use at the AGM, has been despatched to the Shareholders on Wednesday, 17 May 2023 and uploaded on the websites of the Stock Exchange and the Company. Whether or not you intend to attend the AGM, you are requested to complete the supplemental form of proxy in accordance with the instructions printed thereon and return the same to the 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 AGM (i.e. before 10:00 a.m. on Thursday, 1 June 2023) or any adjournment thereof. Completion and return of the supplemental form of proxy shall not preclude Shareholders from attending and voting in person at the AGM 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 AGM, the register of members of the Company will be closed from Tuesday, 30 May 2023 to Friday, 2 June 2023 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of members of the Company on Tuesday, 30 May 2023 shall be entitled to attend and vote at the AGM. In order for the Shareholders to be qualified for attending and voting at the AGM, all transfer documents, accompanied by the relevant Share certificates, must be lodged with the Board office at Securities Department, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC (for holders of Domestic Shares), or the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) no later than 4:30 p.m. on Monday, 29 May 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 supplemental notice of the AGM 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 Continuing Connected Transactions are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the AGM.

RECOMMENDATIONS OF THE INDEPENDENT FINANCIAL ADVISOR AND THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Continuing Connected Transactions as contemplated thereunder, and Gram Capital has been appointed as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders on the same.

The Independent Financial Advisor considers that the Continuing Connected Transactions are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Financial Advisor recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the AGM to approve the Continuing Connected Transactions as contemplated thereunder. The full text of the Letter from Independent Financial Advisor issued by Gram Capital containing its recommendation in respect of the Continuing Connected Transactions as contemplated thereunder is set out on pages IFA-1 to IFA-45 of this supplemental circular.

The Independent Board Committee, having taken into account the advice of the Independent Financial Advisor, considers the Continuing Connected Transactions are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the AGM to approve the Continuing Connected Transactions as contemplated thereunder. The full text of the Letter from the Independent Board Committee is set out on pages IBC-1 to IBC-2 of this supplemental 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)

17 May 2023

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS
1. ENERGY PURCHASE FRAMEWORK AGREEMENT;
2. APIs PURCHASE AGREEMENT;
3. PACKAGING AND PRODUCTION MATERIALS PURCHASE FRAMEWORK AGREEMENT;
4. EQUIPMENT PURCHASE AND CIVIL CONSTRUCTION FRAMEWORK AGREEMENT;
5. ENTRUSTED PROCESSING FRAMEWORK AGREEMENT;
6. EQUIPMENT SALES FRAMEWORK AGREEMENT;
AND
7. ENTRUSTED PRODUCTION AND INSPECTION SERVICES FRAMEWORK AGREEMENT

We refer to the supplemental circular of the Company dated 17 May 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 Continuing Connected Transactions and to advise the Independent Shareholders in respect of the Continuing Connected Transactions. 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 the Independent Financial Advisor" as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Advisor as set out in their letter of advice, we consider the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company, and on normal commercial terms which are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions in relation to the Continuing Connected Transactions at the AGM.

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 Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions for the purpose of inclusion in this supplemental 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

17 May 2023

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

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the supplemental circular dated 17 May 2023 issued by the Company to the Shareholders (the "**Supplemental Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Supplemental Circular unless the context requires otherwise.

On 27 February 2023, the Company entered into the Continuing Connected Transaction Agreements with Shenzhen HEC Industrial. Pursuant to the Continuing Connected Transaction Agreements, the Company and Shenzhen HEC Industrial Group will mutually provide certain products and services for a term from 27 February 2023 to 31 December 2025.

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

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

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as an independent financial adviser 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 were set out in the Company's circular dated 28 May 2021; (iii) continuing connected transactions, details of which were set out in the Company's circular dated 2 August 2022; and (iv) major and connected transactions, details of which were set out in the Company's circular dated 10 March 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 were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

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

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Supplemental 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 Supplemental 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 Supplemental Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Continuing Connected Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company and Shenzhen HEC Industrial Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Continuing Connected Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of and reasons for the Continuing Connected Transactions

Information on the Company

With reference to the Board Letter, the Company is a pharmaceutical manufacturing company focusing on the development, manufacturing and sales of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases as well as cardiovascular diseases. The ultimate beneficial owners of the Company are Ms. GUO Meilan and Mr. ZHANG Yushuai.

Information on Shenzhen HEC Industrial

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

2. Reasons for and benefits of the Continuing Connected Transactions

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

As advised by the Directors, the products/services under the Continuing Connected Transactions as provided by the Shenzhen HEC Industrial Group to the Group were to ensure the normal engagement of the Group's production and commercial activities. In addition, the products/services under the Continuing Connected Transactions as provided by the Group to the Shenzhen HEC Industrial Group are revenue in nature. It is beneficial for the Group to efficiently utilize production lines and avoid idle factory buildings, equipment and loss of personnel.

Some of the previously purchased equipment is idle due to project delays and industrial adjustments of the Company's biological preparation factory, and Shenzhen HEC Industrial needs the relevant Equipment for its business development. Therefore, the sales of the relevant Equipment are conducive to reducing the risk of depreciation of the Company's idle Equipment.

As the Continuing Connected Transactions will be entered into in the ordinary and usual course of business of the Group and on a frequent basis, it would be costly and impracticable to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Listing Rules (if necessary).

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

3. Principal terms of the Continuing Connected Transactions

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

A. Energy Purchase Framework Agreement

Date: 27 February 2023

Parties:

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

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

Term:	From 27 February 2023 to 31 December 2025
Nature of transaction:	The Company agreed to purchase Energy required for its production from Shenzhen HEC Industrial.
Payment method:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.

Pricing policy:

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

(i) the electricity supply price in accordance with the benchmark price of RMB0.4161 per kWh, which was approved by the Hubei Provincial Price Bureau in the notice of reasonably adjustment of the electricity tariff structure pursuant to Hubei Provincial Price Bureau (E Jia Huan Zi [2017] No. 92) (鄂價環資[2017]92號文) and the letter from the Yidu Development and Reform Bureau in relation to the electricity supply price in direct supply district by Yichang HEC Power Plant, which stipulates that the power supply tariff in the direct supply zone shall not be lower than the benchmark on-grid tariff of Hubei Province for the same period and shall not be higher than 120% of the benchmark on-grid tariff of the Hubei Province for the same period; and

(ii) the steam supply price is determined with the range of approximately RMB130 per ton to RMB260 per ton, which were the price charged by Yichang HEC Power Plant and Yichang HEC Biochemical Manufacturing Co. Ltd.* (宜昌東陽光生化製藥有限公司), a subsidiary of Shenzhen HEC Industrial, to the Group historically.

As also stated in the Board Letter, purchase price for steam supply price will be determined in accordance with the price for similar enterprises as stipulated in the price list for steam supply to enterprise from 宜昌市招商局 (Yichang Investment Promotion Bureau*) from time to time.

For electricity supply price, we obtained relevant government document and acknowledged the electricity supply price in accordance with the benchmark price of RMB0.4161 per kWh. For steam supply price, we noted that 宜昌市招商局 (Yichang Investment Promotion Bureau*) published price of utilities in April 2022, pursuant to which the steam supply price for urban area is RMB170 to RMB225 per ton. As advised by the Directors, as (i) the production base in Yichang City located in suburban district; and (ii) the pipeline for the transmission steam is currently not connected to the Group's production base in Yichang City, the steam supply price for urban area is not applied to the Group and such price is only a reference price. As the steam supply price offered by Shenzhen HEC Industrial Group is close to steam supply price for urban area announced by 宜昌市招商局 (Yichang Investment Promotion Bureau*) which is a reference price to the Group and the steam supply price is the same as those historically charged to the Group, we consider the steam supply price is reasonable.

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

To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the Energy Purchase Framework Agreement, we obtained a list showing the transactions of purchase of electricity and steam (being the Energy to be purchased pursuant to the Energy Purchase Framework Agreement) from connected persons for FY2022. We selected three individual transactions for each of the purchase of electricity and steam on a random basis and further requested the Company to relevant government documents for the pricing of electricity and steam in FY2022. We consider that the selection of three individual transactions with connected persons for the purchase of each Energy with government documents are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the individual transactions were selected on a random basis; and (ii) the amount of such selected individual transactions accounts for over 10% of the total transaction amount of purchase of electricity and steam from connected persons for FY2022.

Based on the aforesaid documents, we noted that the unit price of electricity as shown in the invoices are the same as the government prescribed price as shown in relevant government documents; the unit price of steam as shown in the invoices fell within the price range (i.e. RMB130 per tonne to RMB260 per tonne) as stated in energy purchase framework agreement dated 27 April 2022.

We also discussed with the management and staffs of the Company and the Company's relevant subsidiaries and understood that they were aware of the procedures and would comply with the abovementioned procedures when conducting the transactions contemplated under the Energy Purchase Framework Agreement.

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

In addition, we noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold. Upon our further request, the Company provided us with accumulated historical transaction amounts of the Continuing Connected Transactions for each month during the period from the effective date of the relevant existing framework agreements of the Continuing Connected Transactions to 31 December 2022. We noted that the transaction amounts under the packaging and production materials purchase framework agreement dated 27 April 2022 amounted to approximately RMB28.77 million, representing approximately 79.9% of the original annual cap of such transaction (i.e. RMB36 million) for nine months ended 30 September 2022, and the Board revised annual cap of such transaction in October 2022. Having considered the aforesaid our findings, we do not doubt the effectiveness of implementation of the internal control measures for monitoring the transaction amounts of the Continuing Connected Transactions.

The proposed annual caps under the Energy Purchase Framework Agreement

The table below demonstrates (i) the historical transactions amounts for the purchase of Energy from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2022 as extracted from the Board Letter; and (ii) the proposed annual caps for the three years ending 31 December 2025:

	For the year ended 31 December 2020	**For the year ended 31 December 2021**	**For the year ended 31 December 2022**
	RMB'000	*RMB'000*	*RMB'000*
Historical transaction amounts for purchase of Energy from Shenzhen HEC Industrial Group	22,396.31	35,679.06	42,769
Previous/Existing annual caps	49,518.40	55,700	56,000
Utilisation rate	45.23%	64.06%	76.37%

	For the year ending 31 December 2023	**For the year ending 31 December 2024**	**For the year ending 31 December 2025**
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual cap for purchase of Energy from Shenzhen HEC Industrial Group	50,400	56,750	56,750

We understood that the Directors considered certain factors as set out under the sub-section headed "Proposed annual caps and determination basis" under the section headed "1. Energy Purchase Framework Agreement" of the Board Letter when determining the proposed annual cap for the transactions contemplated under the Energy Purchase Framework Agreement for the three years ending 31 December 2025.

According to the above table, the estimated amounts (i.e. proposed annual cap) for the purchase of Energy from Shenzhen HEC Industrial Group for FY2023 (i.e. RMB50,400,000) represented a substantial increase of approximately 17.8% as compared to the historical transaction amounts of RMB42,769,000 for FY2022. As advised by the Directors, the estimated substantial increase was mainly due to the launch of the Group's new product lines for FY2023 and anticipated increase in the production of APIs or pharmaceutical products which may result in the demand of energy to be supplied by Shenzhen HEC Industrial Group pursuant to the Energy Purchase Framework Agreement.

Upon our request, we obtained the calculation of the proposed annual cap for FY2023 and noted that the estimated use of Energy for FY2023 was the summation of estimated use of Energy by the Group's different production factories/workshops, which was determined based on the estimated use of Energy (in quantity) and the unit price of Energy as advised by the Directors.

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

- In respect of the unit price of electricity, the Company adopted RMB0.4161 per kWh for estimation purpose, which is the same as the pricing policy of the electricity pursuant to the Energy Purchase Framework Agreement. In respect of the unit price of steam, the Company adopted different prices (which was considered as different distance between different suppliers within the Shenzhen HEC Industrial Group and the Group) which were within the range of the price range of the steam (i.e. RMB130 per ton to RMB260 per ton) pursuant to the Energy Purchase Framework Agreement. Unit price of the Energy in terms of cost of Energy to be consumed for the production of per unit pharmaceutical products were also applied in the process of calculation the estimated amounts of Energy and such unit price was determined with reference to the historical information as advised by the Directors.

- In respect of the estimated use of Energy (in quantity), the Directors advised us that such estimation was made with reference to historical usage of the Energy (such as fixed consumption for the operation of production factories/workshops, monthly usage of relevant production factories/workshops) and the anticipated usage of the Energy for new production factories/workshops to be put into operation in FY2023.

Based on the above information, we noted that the estimated amounts of electricity for FY2023 was approximately RMB36.15 million and the estimated amounts of steam for FY2023 was approximately RMB14.25 million.

In addition, we also noted that the Group's purchase of Energy for FY2021 and FY2022 represented increases of approximately 59.3% and 19.9% as compared to those for FY2020 and FY2021, with an average increase of approximately 39.6%. The implied increase in the Group's estimated purchase of Energy for FY2023 represented an increase of approximately 17.8% as compared to the Group's actual purchase of Energy for FY2022, which is close to the increase in the Group's purchase of Energy for FY2022 (i.e. 19.9%) but lower than the average of the Group's purchase of Energy from 2020 to 2022 (i.e. 39.6%). We therefore consider the implied increase in the Group's purchase of Energy for FY2023 (i.e. 17.8%) to be justifiable.

As the proposed annual cap for FY2023 (i.e. RMB50.4 million) equals to the summation of the aforesaid estimated amounts of Energy (i.e. summation of approximately RMB36.15 million and RMB14.25 million), we are of the view that the proposed annual cap for FY2023 is fair and reasonable.

The proposed annual cap for FY2024 represented an increase of 12.6% to that for FY2023. As advised by the Directors, the estimated substantial increase was mainly due to the launch of the Group's new product lines for FY2024 and anticipated increase in the production of APIs or pharmaceutical products which may result in the demand of energy to be supplied by Shenzhen HEC Industrial Group pursuant to the Energy Purchase Framework Agreement. The implied increase from FY2022 to FY2023 (i.e. approximately 17.8%) was also considered when determining the proposed annual cap for FY2024. As the implied increase rate from FY2023 to FY2024 was not deviated from that from FY2022 to FY2023, we are of the view that the proposed annual cap for FY2024 is fair and reasonable.

The Directors further advised us that they did not anticipate any new product lines to be launched in FY2025 and therefore they assumed the estimated demand of Energy for FY2025 remained at the same level as compared to that for FY2024. Therefore, the proposed annual cap for FY2025 was the same with the proposed annual cap for FY2024 and we are of the view that the proposed annual cap for FY2025 is fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of expenses/costs to be incurred from the purchase of Energy. Consequently, we express no opinion as to how closely the actual expenses/costs to be incurred from the transactions contemplated under the Energy Purchase Framework Agreement will correspond with the proposed annual cap.

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

B. APIs Purchase Agreement

Date:	27 February 2023
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and (ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term:	From 27 February 2023 to 31 December 2025
Nature of transaction:	The Company agreed to purchase certain active pharmaceutical ingredients (''**APIs**'') such as Aripiprazole, Rivaroxaban, Escitalopram Oxalate, Clarithromycin from Shenzhen HEC Industrial.
Payment method:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.

Pricing policy:

In selecting the APIs suppliers, the Company will obtain quotations from Shenzhen HEC Industrial Group and at least two suppliers who are independent third parties. In addition, as the Company is also engaged in manufacturing of pharmaceutical products, it is well familiar with the market price of relevant APIs required for the production. The prices and terms offered by the Shenzhen HEC Industrial Group will be fair and reasonable, on normal commercial terms and not higher than those offered by independent third party suppliers to the Group.

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

To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the APIs Purchase Agreement, we obtained a list showing the transactions of APIs (being the materials to be purchased pursuant to the APIs Purchase Agreement) from connected persons for FY2022. We selected three individual transactions for the purchase of APIs on a random basis and further requested the Company to provide the corresponding quotations for the same type of APIs provided by independent third parties in FY2022. We consider that the selection of three individual transactions with connected persons for the purchase of APIs with supporting information are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the individual transactions were selected on a random basis; and (ii) the amount of such selected individual transactions accounts for over 10% of the total transaction amount of purchase of APIs from connected persons for FY2022.

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

We also discussed with the management and staffs of the Company and the Company's relevant subsidiaries and understood that they were aware of the procedures and would comply with the abovementioned procedures when conducting the transactions contemplated under the APIs Purchase Agreement.

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

In addition, we noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold. Having considered our findings in respect of the Group's monthly continuing connected transactions amounts and the revision of an original annual cap of continuing connected transactions as mentioned in the section headed "A. Energy Purchase Framework Agreement" above, we do not doubt the effectiveness of implementation of the internal control measures for monitoring the transaction amounts of the Continuing Connected Transactions.

The proposed annual caps under the APIs Purchase Agreement

The table below demonstrates (i) the historical transactions amounts for the purchase of APIs from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2022 as extracted from the Board Letter; and (ii) the proposed annual caps for the three years ending 31 December 2025:

	For the year ended 31 December 2020	**For the year ended 31 December 2021**	**For the year ended 31 December 2022**
	RMB'000	*RMB'000*	*RMB'000*
Historical transaction amounts for purchase of APIs from Shenzhen HEC Industrial Group	8,803	22,935.47	29,777
Previous/Existing annual caps	9,000	32,299.60	40,000
Utilisation rate	97.81%	71.01%	74.44%

	For the year ending 31 December 2023	**For the year ending 31 December 2024**	**For the year ending 31 December 2025**
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual cap for purchase of APIs from Shenzhen HEC Industrial Group	38,946.3	53,786.8	75,442.1

We understood that the Directors considered factors set out under the sub-section headed "Proposed annual cap and determination basis" under the section headed "2. APIs Purchase Agreement" of the Board Letter when determining the proposed annual caps for the transactions contemplated under the APIs Purchase Agreement for the three years ending 31 December 2025.

Upon our request, we obtained breakdown of the estimated demand of the API purchase for the three years ending 31 December 2025. The estimated amounts (equal to the proposed annual caps) for the purchase of APIs from Shenzhen HEC Industrial Group for the three years ending 31 December 2025 (i.e. RMB38,946,300 for FY2023, RMB53,786,800 for FY2024 and RMB75,442,100 for FY2025) represented increases of approximately 30.79%, 80.63% and 153.36% respectively as compared to the historical transaction amounts of RMB29,777,000 for FY2022. As advised by the Directors, the aforesaid increases were mainly due to the increase in estimated demand of Rivaroxaban (利伐沙班) and Clarithromycin (克拉霉素) for the three years ending 31 December 2025 (as a result of the increase in the supply quantities of Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片)) as compared to that for FY2022.

We noted that the estimated demand of Rivaroxaban (利伐沙班) and Clarithromycin (克拉霉素) (as the materials for pharmaceutical products to be supplied according to centralized procurement or possible centralized procurement) accounted for around 90% of the total increase of estimated demand of the API for the three years ending 31 December 2025.

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

- Upon our request, the Directors advised that the above two types of APIs are used for producing Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片).

  Upon our further request, the Directors provided us the estimated supplied volume of aforesaid two pharmaceutical products. We noted that the estimated average monthly supplied quantity of Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) for FY2023 represented increases of approximately 37% and 41% to the actual average monthly supplied quantity of the aforesaid two types of pharmaceutical products for FY2022. Based on historical figures, the above estimated increase rates in average monthly supplied quantity of Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) for FY2023 as compared to FY2022 were the same as the implied increase rates in average monthly supplied quantity of the same products for FY2022 as compared to FY2021. Accordingly, we consider the above estimated increases rates (i.e. approximately 37% and 41%) to be justifiable.

  As the estimated supplied quantity of Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) for FY2023 were calculated based on the historical supplied quantity of the aforesaid products for FY2022 and the estimated increases rates, we consider the estimated supplied quantity of Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) for FY2023 to be fair and reasonable.

  In addition, we also noted that similar increases rates in the estimated supplied quantity of (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) for FY2024 and FY2025 were adopted. Having considered our analyses on the estimated increases rates in the estimated supplied quantity of the two products as mentioned above, we consider the adoption of similar increase rates for the calculation of the estimated supplied amount for such products for FY2024 and FY2025 to be justifiable. Accordingly, we consider the estimated supplied quantity of Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) for FY2024 and FY2025 to be fair and reasonable.

- The estimated amounts of APIs for producing Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) were then calculated by contents of Rivaroxaban (利伐沙班) and Clarithromycin (克拉霉素) times their respective estimated quantities.

Based on the above factors and that the increases in estimated demand of Rivaroxaban (利伐沙班) and Clarithromycin (克拉霉素) for the three years ending 31 December 2025 as compared to that for FY2022 was mainly due to the estimated increase in the supply of Rivaroxaban Tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片) as mentioned above, we consider the estimated demand of APIs for producing Rivaroxaban (利伐沙班) and Clarithromycin (克拉霉素) for the three years ending 31 December 2025 to be reasonable. Accordingly, we consider the proposed annual caps for the purchase of APIs for the three years ending 31 December 2025, the majority of which were the APIs for the producing Rivaroxaban tablets (利伐沙班片) and Clarithromycin Tablets (克拉霉素片), to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of expenses/costs to be recorded/incurred from the APIs Purchase Agreement. Consequently, we express no opinion as to how closely the actual expenses/costs to be incurred from the transactions contemplated under the API Purchase Agreement will correspond with the proposed annual caps.

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

C. Packaging and Production Materials Purchase Framework Agreement

Date: 27 February 2023

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

Term: From 27 February 2022 to 31 December 2025

Nature of transaction:	The Company agreed to purchase of the Packaging Materials for packaging and production of the drugs manufactured by the Group from Shenzhen HEC Industrial.
Payment method:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days after receiving the Packaging Materials and passing the acceptance tests and receipt of the invoice issued by Shenzhen HEC Industrial.

Pricing policy:

In selecting suppliers of the Packaging Materials, the Company will obtain quotations from Shenzhen HEC Industrial and at least two suppliers who are independent third parties. The prices and terms offered by the Shenzhen HEC Industrial will be fair and reasonable, on normal commercial terms and no less favourable than those offered by independent third party suppliers to the Group.

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

To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement, we obtained a list showing the transactions of purchase of specific packaging materials and production materials (being the materials to be purchased pursuant to the Packaging and Production Materials Purchase Framework Agreement) from connected persons for FY2022. We selected three individual transactions for each of the purchase of packaging materials and production materials on a random basis and further requested the Company to provide the corresponding quotations offered by independent third parties.

We consider that the selection of three individual transactions with connected persons for the purchase of packaging materials and production materials with supporting information are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the individual transactions were selected on a random basis; and (ii) the amount of such selected individual transactions accounts for over 10% of the total transaction amount of purchase of packaging materials and production materials from connected persons for FY2022.

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

We also discussed with the management and staffs of the Company and the Company's relevant subsidiaries and understood that they were aware of the procedures and would comply with the abovementioned procedures when conducting the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement.

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

In addition, we noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold. Having considered our findings in respect of the Group's monthly continuing connected transactions amounts and the revision of an original annual cap of continuing connected transactions as mentioned in the section headed "A. Energy Purchase Framework Agreement" above, we do not doubt the effectiveness of implementation of the internal control measures for monitoring the transaction amounts of the Continuing Connected Transactions.

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

The table below demonstrates (i) the historical transactions amounts for the purchase of Packaging Material from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2022 as extracted from the Board Letter; and (ii) the proposed annual caps for the three years ending 31 December 2025:

	For the year ended 31 December 2020	**For the year ended 31 December 2021**	**For the year ended 31 December 2022**
	RMB'000	*RMB'000*	*RMB'000*
Historical transaction amounts for purchase of Packaging Materials from Shenzhen HEC Industrial Group	24,659	12,876.41	40,229
Previous/Existing annual caps	62,000	24,150	45,000
Utilisation rate	39.8%	53.3%	89.4%

	For the year ending 31 December 2023	**For the year ending 31 December 2024**	**For the year ending 31 December 2025**
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual cap for purchase of Packaging Materials from Shenzhen HEC Industrial Group	40,600	40,600	40,600

We understood that the Directors considered factors set out under the sub-section headed "Proposed annual cap and determination basis" under the section headed "3. Packaging and Production Materials Purchase Framework Agreement" of the Board Letter when determining the proposed annual caps for the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement for the three years ending 31 December 2025.

According to the above table, the historical amounts of Packaging Materials for the year ended 31 December 2022 increased substantially as compared with those for the two years ended 31 December 2021. With reference to the Company's announcement dated 27 October 2022, the revised annual cap for purchase of Packaging Materials from Shenzhen Industrial Group for FY2022 (i.e. RMB45,000,000) increased by 25% as compared to the original annual cap for purchase of Packaging Materials from Shenzhen Industrial Group for FY2022 (i.e. RMB36,000,000), such increase was mainly due to the significant increase in drug sales and the use of the required packaging and production materials in the fourth quarter of 2022 as a result of (i) the domestic epidemic prevention and control in China had generally stabilised; (ii) the flow of people and daily social activities had gradually returned to normal; and (iii) the overall flow of people, the number of diagnosis and treatment activities and the volume of prescriptions in terminal medical institutions had recovered significantly.

Upon our request, the Company provided us with the calculations of the proposed annual caps for purchase of Packaging Materials from Shenzhen HEC Industrial Group for the three years ending 31 December 2025 (the "**Packaging Materials Calculation**"). According to the Packaging Materials Calculation, we noted that the proposed annual caps for purchase of Packaging Materials from Shenzhen HEC Industrial Group for the three years ending 31 December 2025 were set based on the sum of (i) the estimated amount of purchase of specific packaging materials; and (ii) the estimated amount of purchase of production materials.

(i) The estimated amount of purchase of specific packaging materials

According to the Packaging Materials Calculation, the estimated amount of purchase of specific packaging materials for FY2023 is RMB32.6 million, which was made reference to the historical amounts of specific packaging materials for FY2022 of approximately RMB32.2 million as advised by the Directors. The Company also expects that the such amount for FY2024 and FY2025 would be at the same level as that for FY2023.

(ii) The estimated amount of purchase of production materials

According to the Packaging Materials Calculation, the estimated amount of purchase of production materials for each of the three years ending 31 December 2025 is RMB8 million, which was made reference to the historical amounts of production materials for FY2022 of approximately RMB8 million as advised by the Directors. The Company also expects that the such amount for FY2024 and FY2025 would be at the same level as that for FY2023.

(iii) Aggregation

The sum of (i) the estimated amount of purchase of specific packaging materials of RMB32.6 million for each of the three years ending 31 December 2025; and (ii) the estimated amount of purchase of production materials of RMB8 million for each of the three years ending

31 December 2025, is RMB40.6 million, which equals to the proposed annual caps for purchase of Packaging Materials from Shenzhen HEC Industrial Group for the three years ending 31 December 2025.

We understood from the Directors that the sales volume of Kewei (being one of the Company's core products) was recovered in 2022 and the Group's multiple products had been approved for launch at end of 2022. The Group also won certain batches of centralized procurement in 2021 and 2022, pursuant to which the Group is expected to continuously supply relevant pharmaceutical products according to the relevant centralized procurement. Therefore, it is reasonable for the Group to at least set the proposed annual caps for the three years ending 31 December 2025 based on the historical amounts of the purchase of Packaging Materials for FY2022.

Having taken into account the above, we consider the proposed annual caps for purchase of Packaging Materials from Shenzhen HEC Industrial Group for the three years ending 31 December 2025 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of expenses/costs to be recorded/incurred from the Packaging and Production Materials Purchase Framework Agreement. Consequently, we express no opinion as to how closely the actual expenses/costs to be incurred from the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement will correspond with the proposed annual cap.

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

D. Equipment Purchase and Civil Construction Framework Agreement

Date:	27 February 2023
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and (ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term:	From 27 April 2023 to 31 December 2025
Nature of transaction:	The Company agreed to purchase Equipment and Civil Construction Services from Shenzhen HEC Industrial.
Payment method:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.

Pricing policy:

The price charged by Shenzhen HEC Industrial to the Group for the purchase of equipment adopts a "cost-plus" mechanism in which a range of 10%–15% of the profit is charged. The price of the equipment will be no less favourable than those offered by independent third party suppliers to the Group. The price charged by Shenzhen HEC Industrial to the Group for the civil construction services adopts a "cost-plus" mechanism in which a range of 5%–10% of the profit is charged.

According to the calculation of proposed annual cap and as advised by the Directors the equipment were mainly metalware products such as storage tank, pipeline, water tank products, which were processed by metal materials. We therefore searched for the gross profit margins of companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange which are participants in metal products industry (including steel and steel related products, metal manufacturing products, steel pipeline products) Based on information obtained from Wind Financial Terminal[*(note)*], the gross profit margin of such companies ranged from approximately 7.33% to 15.00%, representing premiums of approximately 7.91% to 17.65% to costs (average: approximately 12.42%), for FY2021. In addition, we also searched for the gross profit margins of companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange which are participants in housing construction industry. Based on information obtained from Wind Financial Terminal, the gross profit margin of

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

housing construction industry ranged from approximately 3.80% to 9.32%, representing premiums of approximately 3.95% to 10.28% to their costs (average: approximately 7.32%), for FY2021.

As the Shenzhen HEC Industrial Group will charge within-range margins as compared to those of the relevant industries, we consider the range of margin of 10% to 15% for the purchase of equipment (as compared to range of 7.91% to 17.65% with average of approximately 12.42%) and 5% to 10% for the purchase of civil construction services (as compared to range of 3.95% to 10.28% with average of approximately 7.32%) to be acceptable.

With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed ''Internal Control Level'' of the Board Letter. After discussing with the Company and having considered that procurement department, together with relevant departments such as production department and finance department will analyse the cost of relevant products/services (or to procure the connected person to provide cost of relevant products/services) before entering into of the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. 10% to 15% for the purchase of equipment and 5% to 10% for the purchase of civil construction services), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement.

To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement, we obtained a list showing the transactions of purchase of equipment and civil construction services (being the assets/services to be purchased pursuant to the Equipment Purchase and Civil Construction Framework Agreement) from connected persons for FY2022. We selected three individual transactions for purchase of equipment and civil construction services on a random basis and the Company further provided us with (i) the corresponding invoices showing the consideration paid by the Group for such equipment and civil construction; and (ii) the corresponding breakdown of cost for production of such equipment and provision of such civil construction services (including material cost, labour cost, power expenses, etc.).

We consider that the selection of three individual transactions with connected persons for the purchase of equipment and civil construction services with supporting information are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the individual transactions were selected on a random basis; and (ii) the amount of such selected individual transactions accounts for over 10% of the total transaction amount of purchase of equipment and civil construction services from connected persons for FY2022.

Based on the aforesaid documents and with available information, we noted that (i) the range of implied percentage of premium to cost of the equipment (calculated by (consideration — cost)/cost) as purchased from connected persons were not higher than the range of 10% to 15%; and (ii) the range of implied percentage of premium to cost of the civil construction services (calculated by (consideration — cost)/cost) as purchased from connected persons were not higher than the range of 5% to 10%.

We also discussed with the management and staffs of the Company and the Company's relevant subsidiaries and understood that they were aware of the procedures and would comply with the abovementioned procedures when conducting the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement.

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

In addition, we noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold. Having considered our findings in respect of the Group's monthly continuing connected transactions amounts and the revision of an original annual cap of continuing connected transactions as mentioned in the section headed "A. Energy Purchase Framework Agreement" above, we do not doubt the effectiveness of implementation of the internal control measures for monitoring the transaction amounts of the Continuing Connected Transactions.

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

The table below demonstrates (i) the historical transactions amounts for the purchase of Equipment and Civil Construction Services from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2022 as extracted from the Board Letter; and (ii) the proposed annual caps for the three years ending 31 December 2025:

	For the year ended 31 December 2020 *RMB'000*	**For the year ended 31 December 2021** *RMB'000*	**For the year ended 31 December 2022** *RMB'000*
Historical transaction amounts for the purchase of Equipment and Civil Construction	105,748	41,727.31	24,569.5
Previous/Existing annual caps	179,863	62,943.05	37,000
Utilisation rate	58.79%	66.29%	66.40%

	For the year ending 31 December 2023 *RMB'000*	**For the year ending 31 December 2024** *RMB'000*	**For the year ending 31 December 2025** *RMB'000*
Proposed annual cap for the purchase of Equipment and Civil Construction	27,050.00	7,900.00	7,900.00

We understood that the Directors considered factors set out under the sub-section headed "Proposed annual cap and determination basis" under the section headed "4. Equipment Purchase and Civil Construction Framework Agreement" of the Board Letter when determining the proposed annual caps for the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement for the three years ending 31 December 2025.

Upon our request, the Company provided us with the calculations of the proposed annual caps for purchase of Equipment and Civil Construction from Shenzhen HEC Industrial Group for the three years ending 31 December 2025 (the "**Equipment and Civil Construction Calculation**"). According to the

Equipment and Civil Construction Calculations, we noted that the proposed annual caps for purchase of Equipment and Civil Construction from Shenzhen HEC Industrial Group for the three years ending 31 December 2025 were set based on the sum of (i) the estimated amount of purchase of equipment; and (ii) the estimated amount of purchase of civil construction services.

The estimated amount of purchase of equipment

According to the Equipment and Civil Construction Calculation, the Company expects (i) outstanding amount of purchase of equipment of RMB5.5 million to be settled in FY2023 (in this regard, the Company provided breakdown of such amount and copy of the corresponding executed contract); and (ii) potential transaction amount of RMB5.8 million for the purchase of equipment for FY2023 (in this regard, the Company made reference to the historical transaction amount for the purchase of equipment for certain members of Shenzhen HEC Industrial for FY2022 as the Directors consider the transactions among the Group and such members of Shenzhen HEC Industrial would be recurrent and adopted the same amount for FY2023 as the historical transaction amount for FY2022). Accordingly, the estimated amount of purchase of equipment (the "**Estimated Equipment Purchase Amount**") for FY2023 is approximately RMB11.3 million.

According to the Equipment and Civil Construction Calculation, the Company expects the aforesaid potential transaction amount of approximately RMB5.8 million for FY2023 to be recurring for FY2024 and FY2025. Accordingly, the Estimated Equipment Purchase Amount for each of FY2024 and FY2025 is also set as RMB5.8 million respectively.

The estimated amount of civil construction services

According to the Equipment and Civil Construction Calculation, the Company expects that (i) outstanding amount of civil construction services of approximately RMB13.6 million to be settled in FY2023 (in this regard, the Company provided breakdown of such amount and copies of relevant executed contracts); and (ii) potential transaction amount of RMB2.1 million for the purchase of civil construction services for FY2023 (in this regard, the Company made reference to the historical transaction amount for the accepting civil construction services for certain members of Shenzhen HEC Industrial for FY2022 as the Directors consider the transactions among the Group and such members of Shenzhen HEC Industrial would be recurrent and adopted the amount for FY2023 same as the historical transaction amount for FY2022). Accordingly, the estimated amount of civil construction services (the "**Estimated Civil Construction Amount**") for FY2023 is approximately RMB15.7 million.

According to the Equipment and Civil Construction Calculation, the Company expects the aforesaid potential transaction amount of approximately RMB2.1 million for FY2023 to be recurring for FY2024 and FY2025. Accordingly, the Estimated Civil Construction Amount for each of FY2024 and FY2025 is also set at RMB2.1 million respectively.

Aggregation

For FY2023, the sum of (i) Estimated Equipment Purchase Amount of approximately RMB11.3 million; and (ii) Estimated Civil Construction Amount of approximately RMB15.7 million, is approximately RMB27.0 million. The proposed annual cap for the purchase of Equipment and Civil Construction for FY2023 was set at RMB27.05 million after rounding.

For FY2024, the sum of (i) Estimated Equipment Purchase Amount of approximately RMB5.8 million; and (ii) Estimated Civil Construction Amount of approximately RMB2.1 million, is approximately RMB7.9 million. The proposed annual cap for the purchase of Equipment and Civil Construction for FY2024 was set at RMB7.9 million accordingly.

For FY2025, the sum of (i) Estimated Equipment Purchase Amount of approximately RMB5.8 million; and (ii) Estimated Civil Construction Amount of approximately RMB2.1 million, is approximately RMB7.9 million. The proposed annual cap for the purchase of Equipment and Civil Construction for FY2025 was set at RMB7.9 million accordingly.

Based on the above, we consider that the proposed annual caps for the three years ending 31 December 2025 are fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of expenses/costs to be recorded/incurred from the Equipment Purchase and Civil Construction Framework Agreement. Consequently, we express no opinion as to how closely the actual expenses/costs to be incurred from the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement will correspond with the proposed annual caps.

Having considered the above, including the principal terms of the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement and the proposed annual caps, we are of the view that the terms of the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement are fair and reasonable.

E. Entrusted Processing Framework Agreement

Date: 27 February 2023

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

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

Term: From 27 February 2023 to 31 December 2025

Nature of transaction: The Company agreed to purchase Processing Services for its certain pharmaceutical products, including Olmesartan Tablets, Moxifloxacin Tablets, Clarithromycin Tablets, Aripiprazole Tablets, Levofloxacin Tablets, Rivaroxaban Tablets, Duloxetine Enteric-coated Capsules, Escitalopram Oxalate Tablets, Xadiafil Tablets, Aripiprazole Orally Disintegrating Tablets, Entacapone Tablets, Rongliflozin and other APIs from Shenzhen HEC Industrial.

Payment method: The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.

Pricing policy:

The price of the processing fee payable by the Group to Shenzhen HEC Industrial will be no less favourable than those offered by independent third party processing service providers and a "cost-plus" mechanism is adopted. In addition to the necessary costs and expenses incurred for the processing services, Shenzhen HEC Industrial Group charges the Group an additional fee within approximately 10%–20% of the processing fee.

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

Upon our further request, the Directors provided us the revenue and cost of the above-mentioned pharmaceutical products. The average gross profit margin of the above-mentioned pharmaceutical products amounted to approximately 21.1% for FY2021 and 30.6% for FY2022, indicating premium of approximately 26.8% for FY2021 and 44.0% for FY2022 to their costs. As Shenzhen HEC Industrial Group will charge a smaller margin as compared to the gross profit margin of the pharmaceutical products pursuant to the Entrusted Processing Framework Agreement, we consider the range of margin of approximately 10% to 20% to be acceptable.

With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed ''Internal Control Level'' of the Board Letter. After discussing with the Company and having considered that procurement department, together with relevant departments such as finance department will analyse the cost of relevant services (or to procure the connected person to provide cost of relevant products) before entering into of the transactions contemplated under the Entrusted Processing Framework Agreements to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. within approximately 10% to 20% of the processing fee), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Entrusted Processing Framework Agreement.

To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the Entrusted Processing Framework Agreement, we obtained a list showing the transactions of purchase of processing services (being the services to be provided pursuant to the Entrusted Processing Framework Agreement) from connected persons for FY2022. We selected three individual transactions of processing services on a random basis and the Company further provided us with (i) the corresponding invoices showing the consideration paid by the Group for such services; and (ii) the corresponding breakdown of cost for such processing services (including material cost, labour cost, package cost, testing cost, etc.).

We consider that the selection of three individual transactions with connected persons for the processing services with supporting information are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the individual transactions were selected on a random basis; and (ii) the amount of such selected individual transactions accounts for over 10% of the total transaction amount of purchase of processing services from connected persons for FY2022

Based on the aforesaid documents and with available information, we noted that the range of implied percentage of premium to cost of the processing services (calculated by (consideration – cost)/cost) provided by connected persons were not higher than the range of 10% to 20%.

We also discussed with the management and staffs of the Company and the Company's relevant subsidiaries and understood that they were aware of the procedures and would comply with the abovementioned procedures when conducting the transactions contemplated under the Entrusted Processing Framework Agreement.

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

In addition, we noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold. Having considered our findings in respect of the Group's monthly continuing connected transactions amounts and the revision of an original annual cap of continuing connected transactions as mentioned in the section headed "A. Energy Purchase Framework Agreement" above, we do not doubt the effectiveness of implementation of the internal control measures for monitoring the transaction amounts of the Continuing Connected Transactions.

The proposed annual caps under the Entrusted Processing Framework Agreement

The table below demonstrates (i) the historical transactions amounts for entrusting of Shenzhen HEC Industrial Group to carry out processing services for its certain pharmaceutical products for each of the three years ended 31 December 2022 as extracted from the Board Letter; and (ii) the proposed annual cap for the three years ending 31 December 2025:

	For the year ended 31 December 2020	**For the year ended 31 December 2021**	**For the year ended 31 December 2022**
	RMB'000	*RMB'000*	*RMB'000*
Historical transaction amounts for entrusting of Shenzhen HEC Industrial Group to carry out processing services for its certain pharmaceutical products	81,149	52,628.78	73,139.7
Previous/Existing annual caps	119,523.3	130,330.7	103,066.2
Utilisation rate	67.89%	40.38%	70.96%

	For the year ending 31 December 2023	**For the year ending 31 December 2024**	**For the year ending 31 December 2025**
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual caps for entrusting of Shenzhen HEC Industrial Group to carry out processing services for its certain pharmaceutical products	94,805.50	108,832.00	139,468.20

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

According to the above table, the proposed annual caps (i.e. the estimated amounts) for the purchase of Processing Services from Shenzhen HEC Industrial Group for the three years ending 31 December 2025 represented a substantial increase as compared to the historical transaction amounts of RMB73,139,700 for FY2022. As advised by the Directors, the aforesaid increases in estimated demand in the Processing Services were mainly due to the estimated increase in sales volume of pharmaceutical products as results of the continuous supply of pharmaceutical products according to the winning bid of centralized procurement in FY2020, FY2021 and FY2022 and newly launched pharmaceutical products in FY2023.

Upon our request, we obtained a list (the "**Entrusted Processing List**") from the Company showing the Company's estimated volume of different pharmaceutical products together with entrusted processing costs for the three years ending 31 December 2025.

The processing costs comprised the costs for the Processing Services for (i) the Centralized Procurement Pharmaceutical Products; (ii) the Non-centralized Procurement Pharmaceutical Products; and (iii) the new pharmaceutical products.

The Centralized Procurement Pharmaceutical Products

According to the Entrusted Processing List, (i) there were eight types of pharmaceutical products which won bid of centralized procurement organized by the National Organization Office for the Centralized Procurement and Usage of Pharmaceuticals* (國家組織藥品集中採購和使用聯合採購辦公室) in 2020, 2021 and 2022; and (ii) the estimated entrusted processing amounts for the aforesaid eight types of pharmaceutical products accounted for approximately 85%, 96% and 97% to the total estimated amounts of entrusted processing services for each of the three years ending 31 December 2025 under the Entrusted Processing Framework Agreement respectively (i.e. RMB94,805,500 for FY2023, RMB108,832,000 for FY2024 and RMB139,468,200 for FY2025).

For our due diligence purpose, we searched for the eight types of pharmaceutical products and noted that such products won bid of centralized procurement in January 2020, August 2020, February 2021, June 2021, and July 2022. The aforesaid eight types of pharmaceutical products (the "**Centralized Procurement Pharmaceutical Products**") were Moxifloxacin Hydrochloride Tablet (鹽酸莫西沙星片), Clarithromycin Tablets (克拉霉素片), Olmesartan Medoxomil Tablets (奧美沙坦酯片), Levofloxacin Tablets (左氧氟沙星片), Duloxetine Hydrochloride Enteric-coated Capsules (鹽酸度洛西汀腸溶膠囊), Aripiprazole Tablets (阿立哌唑片), Aripiprazole Orally Disintegrating Tablets (阿立哌唑口崩片) and Rivaroxaban tablets (利伐沙班片).

We noted that the estimated average monthly supplied quantity of Moxifloxacin Hydrochloride Tablet (鹽酸莫西沙星片), Clarithromycin Tablets (克拉霉素片), Olmesartan Medoxomil Tablets (奧美沙坦酯片), Levofloxacin Tablets (左氧氟沙星片), Duloxetine Hydrochloride Enteric-coated Capsules (鹽酸度洛西汀腸溶膠囊), Aripiprazole Tablets (阿立哌唑片) and Rivaroxaban tablets (利伐沙班片) (i.e. the Centralized Procurement Pharmaceutical Products other than Aripiprazole Orally Disintegrating Tablets (阿立哌唑口崩片)) for FY2023 represented changes ranging from -47% to 70% to the actual average monthly supplied quantity of the aforesaid pharmaceutical products for FY2022. Based on the historical figures, the aforesaid estimated changes ranging from -47% to 70% in average monthly supplied quantity of Moxifloxacin Hydrochloride Tablet (鹽酸莫西沙星片), Clarithromycin Tablets (克拉霉素片), Olmesartan Medoxomil Tablets (奧美沙坦酯片), Levofloxacin Tablets (左氧氟沙星片), Duloxetine Hydrochloride Enteric-coated Capsules (鹽酸度洛西汀腸溶膠囊), Aripiprazole Tablets (阿立哌唑片) and Rivaroxaban tablets (利伐沙班片) for FY2023 as compared to FY2022 were the same as the implied changes in average monthly supplied quantity of the same products for FY2022 as compared to FY2021 (e.g. the estimated average monthly supplied quantity of Moxifloxacin Hydrochloride Tablet (鹽酸莫西沙星片) for FY2023 represented an increase of 70% to the actual average monthly supplied quantity of Moxifloxacin Hydrochloride Tablet (鹽酸莫西沙星片) for FY2022, which was the same as the implied changes in average monthly supplied quantity of Moxifloxacin Hydrochloride Tablet (鹽酸莫西沙星片) for FY2022 as compared to FY2021. The estimation of the change for other six products was arrived at on the same methodology). Accordingly, we consider the FY2023 change rates ranging from -47% to 70% for Moxifloxacin Hydrochloride Tablet (鹽酸莫西沙星片), Clarithromycin Tablets (克拉霉素片), Olmesartan Medoxomil Tablets (奧美沙坦酯片), Levofloxacin Tablets (左氧氟沙星片), Duloxetine Hydrochloride Enteric-coated Capsules (鹽酸度洛西汀腸溶膠囊), Aripiprazole Tablets (阿立哌唑片) and Rivaroxaban tablets (利伐沙班片) to be justifiable.

As for Aripiprazole Orally Disintegrating Tablets (阿立哌唑口崩片), the Company won bid of centralized procurement of Aripiprazole Orally Disintegrating Tablets (阿立哌唑口崩片) organized by the National Organization Office for the Centralized Procurement and Usage of Pharmaceuticals* (國家組織藥品集中採購和使用聯合採購辦公室) in July 2022. Therefore, there was no supplied quantity of Aripiprazole Orally Disintegrating Tablets (阿立哌唑口崩片) for FY2021 pursuant to the centralized procurement. Therefore, the Directors estimated such estimated volume based on, among other things, the actual average monthly supplied quantity of the Centralized Procurement Pharmaceutical Products for FY2022 to the average target monthly supplied quantity of the Centralized Procurement Pharmaceutical Products according to the centralised procurement requirements.

Based on the above factors, in particular, the estimated supplied quantities of Centralized Procurement Pharmaceutical Products were calculated based on average monthly supplied quantity of the same products for FY2022 and the estimated change rates, we consider the estimated supplied quantity of Centralized Procurement Pharmaceutical Products for FY2023 to be fair and reasonable.

In addition, we also noted that similar change rates in the estimated supplied quantity of Centralized Procurement Pharmaceutical Products for FY2024 and FY2025 were adopted. Having considered our analyses on the estimated increases rates in the estimated supplied quantity of the Centralized Procurement Pharmaceutical Products as mentioned above, we consider the adoption of similar change rates for the calculation of the estimated supplied quantities for the Centralized Procurement Pharmaceutical Products for FY2024 and FY2025 to be justifiable. Accordingly, we consider the estimated supplied quantities of the Centralized Procurement Pharmaceutical Products for FY2024 and FY2025 to be fair and reasonable.

The estimated entrusted processing amounts for Centralized Procurement Pharmaceutical Products for the three years ending 31 December 2025 were calculated by the estimated volume times their respective cost.

The Non-centralized Procurement Pharmaceutical Products

According to the Entrusted Processing List, there were four types of pharmaceutical products which were expected to be sold as retail products (the "**Non-Centralized Procurement Pharmaceutical Products**"); and the estimated entrusted processing amounts for the Non-Centralized Procurement Pharmaceutical Products accounted for approximately 5%, 4%, and 3% to the total estimated amounts of entrusted processing services for the corresponding periods under the Entrusted Processing Framework Agreement respectively.

We understood from the Directors that the estimated entrusted processing amounts for the three years ending 31 December 2025 were made with reference to the actual amounts for FY2022. According to the Entrusted Processing List and the historical amounts as provided by the Directors, the estimated entrusted processing amounts for the Non-centralized Procurement Pharmaceutical Products for the three years ending 31 December 2025 were the same to the historical amounts for the Non-centralized Procurement Pharmaceutical Products for FY2022. Therefore, we consider the estimated entrusted processing amounts for the Non-Centralized Procurement Pharmaceutical Products for the three years ending 31 December 2025 to be fair and reasonable.

The new pharmaceutical products

According to the Entrusted Processing List, the estimated entrusted processing amount for new pharmaceutical products (for research and development purpose only) accounted for approximately 10% to the total estimated amounts of entrusted processing services for FY2023 under the Entrusted Processing Framework Agreement.

The Company expected to launch the new pharmaceutical products in FY2023. Therefore, there would be no estimated amounts of entrusted processing services for FY2024 and FY2025. Upon our further request, the Directors provided estimated volume of the new pharmaceutical products which will be produced under the entrusted processing services. As advised by the Directors, such estimated volume was made by the staff of research and development department of the Company with reference to the corresponding pharmaceutical research phase. We discussed with the staff of research and development department of the Company and obtained the quantity and purpose description regarding the new pharmaceutical products. We noted that the new pharmaceutical products reached the phase III clinical trial stage (i.e. the final clinical trial stage) and the estimated volume of the new pharmaceutical products for FY2023 was not deviate from that for FY2022.

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

Based on the above factors, we consider the proposed annual caps, being the sum of estimated entrusted processing costs for (a) the Centralized Procurement Pharmaceutical Products; (b) the Non-centralized Procurement Pharmaceutical Products; and (c) the new pharmaceutical products, for the three years ending 31 December 2025 to be fair and reasonable.

Shareholders should note that as the proposed annual cap are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Processing Services. Consequently, we express no opinion as to how closely the actual revenue/expenses to be incurred from the transactions contemplated under the Processing Services will correspond with the proposed annual caps.

Having considered the above, including the principal terms of the transactions contemplated under the Entrusted Processing Framework Agreement and the proposed annual caps, we are of the view that the terms of the transactions contemplated under the Entrusted Processing Framework Agreement are fair and reasonable.

F. Equipment Sales Framework Agreement

Date:	27 February 2023
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and (ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term:	From 27 February 2023 to 31 December 2023
Nature of transaction:	The Company agreed to sell the Equipment to Shenzhen HEC Industrial.
Payment method:	Shenzhen HEC Industrial will pay the corresponding amount to the Company (via telegraphic transfer) within 90 days upon receipt of the invoice issued by the Company.

Pricing policy:

The price of the Equipment under the Equipment Sales Framework Agreement (the "**Selling Price**") will be determined with reference to the then purchase price of related Equipment (the "**Original Price**") by the Company.

With reference to the Board Letter, the Company will enquire the price of new equipment currently offered by the then independent supplier, and if (i) the difference between such price and the Original Price is less than 10%, the Selling Price will be the same as the Original Price; and (ii) the difference between such price and the Original Price is more than 10%, the Selling Price will be the higher of such price or the Original Price. Having considered the aforesaid pricing policies and that depreciation cost was not considered during the term of pricing, we consider the pricing policy under the Equipment Sales Framework Agreement is favour to the Group (as vendor).

With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed ''Internal Control Level'' of the Board Letter. After discussing with the Company and having considered that the procurement department of the Company will seek quotation from the then suppliers on the price of the new Equipment before selling them, we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Equipment Sales Framework Agreement.

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

- we discussed with staff of the procurement department and finance department of relevant subsidiaries and management of the Company. We noted that such staff are aware of the internal control measures and will comply with the internal control measures when conducting the transactions contemplated under the Equipment Sales Framework Agreement.

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

Having considered our works above, we do not doubt the effectiveness of implementation of the internal control measures for fair pricing of the transactions contemplated under the Equipment Sales Framework Agreement.

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

The proposed annual cap under the Equipment Sales Framework Agreement

The table below demonstrates the proposed annual cap for FY2023:

	For the year ending 31 December 2023 *RMB'000*
Proposed annual cap for selling the Equipment to Shenzhen HEC Industrial	30,496.50

We understood that the Directors considered factors set out under the sub-section headed "Proposed annual cap and determination basis" under the section headed "Equipment Sales Framework Agreement" of the Board Letter when determining the proposed annual caps for the transactions contemplated under the Equipment Sales Framework Agreement for FY2023.

The Directors provided us with a list showing all Equipment which the Company intended to sell to Shenzhen HEC Industrial Group. Upon our request, we obtained a set of documents (including signed contracts and goods received notes) (the "**Equipment Documents**") in respect of the Group's purchase of the Equipment previously.

According to the Equipment Documents, we noted that (i) all the Equipment to be sold to Shenzhen HEC Industrial were purchased previously from independent third parties; and (ii) the summation of original purchase price of the Equipment amounted to RMB30,496,500, which equals to the proposed annual cap for selling the Equipment to Shenzhen HEC Industrial for FY2023.

Furthermore, we selected an Equipment with single largest selling price (accounted for over 50% to the total estimated selling prices) among all the Equipment and requested the Company to seek current selling price of the selected Equipment from the original suppliers. Based on the information obtained by the Company, the current selling price of the selected Equipment was in line with the original purchase price of the selected Equipment. Having considered the aforesaid factor and that the purpose of the sale of Equipment is to reducing the risk of depreciation of the Company's idle Equipment, we are of the view that it is acceptable for the Company to set the estimated selling prices (the summation of which represented the proposed annual cap) by referring to the original purchase price of the Equipment.

Accordingly, we consider the proposed annual cap for selling the Equipment to Shenzhen HEC Industrial for FY2023 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, and they do not represent forecasts of revenue to be recorded from the Equipment Sales Framework Agreement. Consequently, we express no opinion as to how closely the actual revenue to be recorded from the transactions contemplated under the Equipment Sales Framework Agreement will correspond with the proposed annual cap.

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

G. The Entrusted Production and Inspection Services Framework Agreement

Date:	27 February 2023
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and (ii) Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term:	From 27 February 2023 to 31 December 2025
Nature of transaction:	The Company agreed to provide Production and Inspection Services to Shenzhen HEC Industrial. The scope of the entrusted Production and Inspection Services includes provision of production, inspection and testing services to Dong An Tai, Dong An Qiang, Dong An Rui (東安瑞), Dong Tong Shen (東通神), other generic drugs, other new drugs, insulin degludec/insulin aspart, insulin degludec/liraglutide injection and intermediates of generic drugs.
Payment method:	Shenzhen HEC Industrial will pay the corresponding amount to the Company (via telegraphic transfer) within 90 days upon receipt of the invoice issued by the Company.

Pricing policy:

The entrusted production services fee charged by the Group to Shenzhen HEC Industrial will be determined based on the price of actual entrusted projects and a "cost-plus" mechanism is adopted, in which a range of 10%–20% of the profit is charged. The testing services fee charged by the Group to Shenzhen HEC Industrial will be determined based on the price of actual entrusted research projects and a "cost-plus" mechanism is adopted, in which a range of 10%–15% of the profit is charged.

As advised by the Directors, the profit ranges of Entrusted Production and Inspection Services were determined after arm's length negotiation between the Company and Shenzhen HEC Industrial with reference to, among other things (i) the end-use of the products pursuant to the Entrusted Production and Inspection Services Framework Agreement; (ii) the Group's profitability from the sale of pharmaceutical products (i.e. average gross profit was approximately 21.1% for FY2021 and 30.6% for FY2022); (iii) the Directors' and managements' knowledge that a higher gross profit margin will be for the downstream industry as compared to upstream industry; and (iv) the profit range contemplated under the fee charged by Shenzhen HEC Industrial for the provision of inspection and testing service (i.e. 10% to 15%).

We also noted that the Company and Shenzhen HEC Industrial entered into a leasing and other services framework agreement on 10 February 2023, pursuant to which the Group had accepted inspection and testing service to be provided by Shenzhen HEC Industrial with inspection services fee based on "cost-plus" mechanism where a profit ranging from 10% to 15%.

As advised by the Directors, the scope of work for inspection and testing services pursuant to the Entrusted Production and Inspection Services Framework Agreement are comparable to the scope of inspection and testing service provided by Shenzhen HEC Industrial Group pursuant the leasing and other services framework agreement on 10 February 2023 according to the following reasons (i) the scope of both services included the provision of inspection and testing services for pharmaceutical products or intermediates of generic drugs; and (ii) the procedures of both services were (a) to obtain request from client; (b) to assess the feasibility and provide quotation; (c) to sign contract; (d) to obtain relevant materials from client; (e) to commence inspection and testing services and issue final report. As the inspection and testing service charged by the Group to Shenzhen HEC Industrial Group are at the similar level as those charged by Shenzhen HEC Industrial to the Group, we consider the pricing policy for inspection and testing services contemplated under the Entrusted Production and Inspection Services Framework Agreement to be fair and reasonable.

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

With reference to the Board Letter, the Company has implemented or will implement certain internal control measures to ensure that the pricing and other contractual terms for the continuing connected transaction(s) of the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole. Details of the internal control measures are set out under the section headed "Internal Control Level" of the Board Letter. After discussing with the Company and having considered that production department, together with relevant departments such as finance department will analyse the cost of relevant services before entering into of the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. approximately 10% to 15% or 10% to 20%), we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under Entrusted Production and Inspection Services Framework Agreement.

To assess the effectiveness of the implementation of the internal control measures for the fair pricing of the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement, we obtained a list showing the transactions of provision of inspection and testing services and entrusted production services (being the services to be provided pursuant to the Entrusted Production and Inspection Services Framework Agreement) to connected persons for FY2022. We selected three individual transactions of provision of inspection and testing services and entrusted production services on a random basis and the Company further provided us with (i) the corresponding invoices showing the consideration paid by Shenzhen HEC Industrial for such services; and (ii) the corresponding breakdown of cost for such processing services (including material cost, labour cost, package cost, testing cost, etc.).

We consider that the selection of three individual transactions with connected persons for inspection and testing services and entrusted production services with supporting information are sufficient for us to form our view on the effectiveness of implementation of the internal control mechanism due to following reasons (i) the individual transactions were selected on a random basis; and (ii) the amount of such selected individual transactions accounts for over 10% of the total transaction amount of the Entrusted Production and Inspection Services to connected persons for FY2022.

Based on the aforesaid documents and with available information, we noted that the profit rate charged by the Group for the Entrusted Production and Inspection Services were in accordance with the profit ranges of the entrusted production and inspection services framework agreement dated 27 April 2022.

We also discussed with the management and staffs of the Company and the Company's relevant subsidiaries and understood that they were aware of the procedures and would comply with the abovementioned procedures when conducting the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement.

Having considered our findings on individual transactions and discussion with relevant staffs of the Group as mentioned above, we do not doubt the effectiveness of implementation of the internal control measures for fair pricing of the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement.

In addition, we noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold. Having considered our findings in respect of the Group's monthly continuing connected transactions amounts and the revision of an original annual cap of continuing connected transactions as mentioned in the section headed "A. Energy Purchase Framework Agreement" above, we do not doubt the effectiveness of implementation of the internal control measures for monitoring the transaction amounts of the Continuing Connected Transactions.

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

The table below demonstrates (i) the historical transactions amounts for transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement for each of the three years ended 31 December 2022 as extracted from the Board Letter; and (ii) the proposed annual cap for the three years ending 31 December 2025:

	For the year ended 31 December 2020 *RMB'000*	**For the year ended 31 December 2021** *RMB'000*	**For the year ended 31 December 2022** *RMB'000*
Historical transaction amounts for the provision of Production and Inspection Services to Shenzhen HEC Industrial Group	—	4,971.01	39,843
Previous/Existing annual caps	—	74,296.26	59,000
Utilisation rate	—	6.69%	66.50%

	For the year ending 31 December 2023 *RMB'000*	**For the year ending 31 December 2024** *RMB'000*	**For the year ending 31 December 2025** *RMB'000*
Proposed annual cap for the provision of Production and Inspection Services to Shenzhen HEC Industrial Group	105,230	68,992	49,250

We understood that the Directors considered factors set out under the sub-section headed "Proposed annual cap and determination basis" under the section headed "8. Entrusted Production and Inspection Services Framework Agreement" of the Board Letter when determining the proposed annual caps for the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement for FY2022.

Upon our request, we obtained a detailed breakdown (the "**Entrusted Production and Inspection Breakdown**") of the proposed annual caps for the three years ending 31 December 2025.

According to the Entrusted Production and Inspection Breakdown, we noted that (i) the estimated amounts for the inspection and testing services to Dulaglutide Phase III clinical samples (the "**Estimated Inspection for Dulaglutide**") accounted for approximately 30.4% to the proposed annual cap for FY2023; (ii) the estimated amounts for the provision of production services to (a) Dong An Tai; (b) Dong An Qiang; (c) Dong Tong Shen; (d) Dong Tong Shun; (e) Dong An Rui; (f) Dong Jian Qiang; and (g) Baloxavir (巴洛沙韋) accounted for approximately 57.3%, 81.4% and 80.7% to the proposed annual cap for each of the three years ending 31 December 2025 respectively.

For our due diligence purpose, we obtained the estimated inspection and testing cost for the Estimated Inspection for Dulaglutide for FY2023. We noted that the inspection and testing cost included material cost (excluding material provided by Shenzhen HEC Industrial Group), fixed cost (including labour cost, depreciation on equipment) and variable cost (including utilities cost). The estimated inspection and testing cost for the Estimated Inspection for Dulaglutide for FY2023 was approximately RMB28.83 million. In addition, as advised by the Directors, Dulaglutide is expected to be launched in FY2023 and therefore no further inspection and testing services for Dulaglutide is required in 2024 and 2025.

Furthermore, we obtained the estimated production cost for the production for Dong An Tai; Dong An Qiang; Dong Tong Shen; Dong Tong Shun; Dong An Rui; Dong Jian Qiang; and Baloxavir) for the three years ending 31 December 2025. We noted that the production cost included material cost (excluding material provided by Shenzhen HEC Industrial Group), fixed cost (including labour cost, depreciation on equipment) and variable cost (including utilities cost). The estimated production costs for Dong An Tai; Dong An Qiang; Dong Tong Shen; Dong Tong Shun; Dong An Rui; Dong Jian Qiang; and Baloxavir)(with required quantities) for each of the three years ending 31 December 2025 were approximately RMB51.18 million, RMB48.80 million and RMB34.54 million respectively.

According to the Entrusted Production and Inspection Breakdown, we noted that (i) the estimated inspection and testing cost for the Estimated Inspection for Dulaglutide for FY2023 was RMB28.83 million with profit margin of 11%, being approximately RMB32.00 million; and (ii) the estimated production cost for Dong An Tai; Dong An Qiang; Dong Tong Shen; Dong Tong Shun; Dong An Rui; Dong Jian Qiang; and Baloxavir for the three years ending 31 December 2025 was approximately RMB51.18 million, RMB48.80 million and RMB34.54 million with profit margin of 15% (for Dong Tong Shen, Dong Tong Shun, Dong An Rui, Dong Jian Qiang, and Baloxavir) and 20% (for Dong An Tai and Dong An Qiang), being approximately RMB60.29 million, RMB56.12 million and RMB39.72 million respectively. The pricing policies were in line with the pricing policies as stated in the Entrusted Production and Inspection Services Framework Agreement.

As (i) the Estimated Inspection for Dulaglutide and the estimated amounts for the provision of production services to Dong An Tai; Dong An Qiang; Dong Tong Shen; Dong Tong Shun; Dong An Rui; Dong Jian Qiang; and Baloxavir for the three years ending 31 December 2025 accounted for majority part of the proposed annual cap for the three years ending 31 December 2025; and (ii) in addition to the aforesaid products, the Group are expected to provide production, inspection and testing services for other pharmaceutical products and we obtained the list of such products together with relevant estimated amounts, we are of the view that the proposed annual caps for the three years ending 31 December 2025 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of revenue to be recorded from the Entrusted Production and Inspection Services Framework Agreement. Consequently, we express no opinion as to how closely the actual revenue to be recorded from the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement will correspond with the proposed annual caps.

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

4. Listing Rules implication regarding the continuing connected transactions

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

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

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

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

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Continuing Connected Transactions are fair and reasonable and on normal commercial terms; and (ii) the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the AGM to approve the Continuing Connected Transactions, and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

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

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

1. RESPONSIBILITY STATEMENT

This supplemental 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 supplemental 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 supplemental 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** *(%)*
Sunshine Lake Pharma Co., Ltd.[2,3]	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)
HEC (Hong Kong) Sales Co., Limited[2,4]	H Shares	Beneficial owner	226,200,000 (L)	—	34.59% (L)	25.70% (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)

Name of Shareholders	Types of Shares	Capacity	Number of Shares/ underlying Shares held *(shares)*	Number of underlying shares held under equity derivatives *(shares)*	Approximate percentage of relevant class of share capital *(%)*	Approximate percentage of total issued share capital *(%)*
Ruyuan Yao Autonomous County 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[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)
Mr. ZHANG Yushuai[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)
Ms. HUA Xiaoyi[7]	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[8]	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[8]	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[8]	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[9]	H Shares	Interest in controlled corporation	—	108,868,878 (L) 108,868,878 (S)	16.65% (L) 16.65% (S)	12.37% (L) 12.37% (S)
Blackstone Inc.[9]	H Shares	Interest in controlled corporation	—	108,868,878 (L) 108,868,878 (S)	16.65% (L) 16.65% (S)	12.37% (L) 12.37% (S)
Blackstone Dawn Pte. Ltd.[9]	H Shares	Beneficial owner	—	106,691,500 (L) 106,691,500 (S)	16.32% (L) 16.32% (S)	12.12% (L) 12.12% (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 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. directly and indirectly owned 25.98% equity interest in Guangdong HEC Technology Holding Co., Ltd. and Guangdong HEC Technology Holding Co., Ltd. (which held 21,815,200 H Shares) was a controlled corporation of Shenzhen HEC Industrial Development Co., Ltd.; and Shenzhen HEC Industrial Development Co., Ltd. indirectly owned 13.06% equity interest in Sunshine Lake Pharma Co., Ltd., and HEC (Hong Kong) Sales Co., Limited (which held 226,200,000 H Shares) is wholly-owned by Sunshine Lake Pharma Co., Ltd. (a controlled corporation of Shenzhen HEC Industrial Development Co., Ltd.). Therefore, Shenzhen HEC Industrial Development Co., Ltd. is deemed to be interested in the Shares held by Guangdong HEC Technology Holding Co., Ltd. and HEC (Hong Kong) Sales Co., Limited (248,015,200 H Shares in total).

   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. HEC (Hong Kong) Sales Co., Limited pledged 226,200,000 H Shares to a third-party lender as collateral for the loan provided to Sunshine Lake Pharma by the third-party lender.

5. 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.

6. 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.

7. 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.

8. 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.

9. This represents the Shares to be issued upon the exercise of the conversion right attached to the H Share convertible bonds, which conversion price being initially HK$38 per H Share, subject to adjustment. The conversion price is 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 Blackstone Inc. (formerly known as The Blackstone Group L.P.) and its directly and indirectly controlled entities are deemed to be interested in the unlisted derivatives in relation to 40,109,587 Shares (which are adjusted to 108,868,878 Shares due to bonus issue of Shares and the adjustment of the conversion price) held by Blackstone Dawn Pte. Ltd., in relation to 225,617 Shares (which are adjusted to 612,388 Shares due to bonus issue of Shares and the adjustment of the conversion price) held by Blackstone Dawn Holdings ESC (Cayman) Ltd. and in relation to 576,575 Shares (which are adjusted to 1,564,990 Shares due to bonus issue of Shares and 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 and chief executive 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, 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 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or are proposed to be acquired, disposed of by, or leased to any member of the Group; and

(b) none of the Directors or the supervisors of the Company was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

7. MATERIAL LITIGATION

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

8. QUALIFICATION OF EXPERT AND CONSENT

The qualifications of the expert who has given an opinion or advice in this supplemental circular is as follow:

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

As of the Latest Practicable Date, the expert mentioned above: (i) has given and has not withdrawn its written consent to the issue of this supplemental circular with the inclusion of its letter, report or opinion and the references to its name 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 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Company have been made up.

10. GENERAL

(a) The joint company secretaries of the Company are Mr. PENG Qiyun (彭琪雲) and Mr. WONG Wai Chiu (黃偉超). Mr. WONG is an 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 supplemental circular shall prevail over the Chinese text.

11. DOCUMENTS ON DISPLAY

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

(a) Energy Purchase Framework Agreement;

(b) APIs Purchase Agreement;

(c) Packaging and Production Materials Purchase Framework Agreement;

(d) Equipment Purchase and Civil Construction Framework Agreement;

(e) Entrusted Processing Framework Agreement;

(f) Equipment Sales Framework Agreement;

(g) Entrusted Production and Inspection Services Framework Agreement;

(h) the letter from the Board dated 17 May 2023, the text of which is set out on pages 5 to 36 of this supplemental circular;

(i) the letter of recommendation from the Independent Board Committee dated 17 May 2023, the text of which is set out on pages IBC-1 to IBC-2 of this supplemental circular;

(j) the letter of advice from Gram Capital Limited dated 17 May 2023, the text of which is set out on pages IFA-1 to IFA-45 of this supplemental circular;

(k) the written consent of Gram Capital Limited, which was referred to in the section headed "Qualification of Expert and Consent" in this appendix; and

(l) this supplemental 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)

SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

Reference is made to the notice of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the "**Company**") dated 24 April 2023 (the "**Notice**") for the annual general meeting of the Company (the "**AGM**"), which sets out the time and venue of the AGM and contains the resolutions to be considered and approved by the shareholders of the Company at the AGM (the "**Original Resolutions**").

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the AGM will be held as originally scheduled at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC at 10:00 a.m. on Friday, 2 June 2023 to consider and, if thought fit, to approve in addition to the Original Resolutions, the following resolutions (the "**New Resolutions**"). The New Resolutions were submitted to the AGM by Sunshine Lake Pharma Co., Ltd.* (廣東東陽光藥業有限公司) and its wholly-owned subsidiary, HEC (Hong Kong) Sales Co., Limited (holding in aggregate approximately 51.41% of the issued shares of the Company) in compliance with the laws and the articles of association of the Company. Save as mentioned herein, all information and contents set out in the Notice remain unchanged. Shareholders and potential investors are advised to refer to the Circular (as defined below) for further details in relation to the Continuing Connected Transactions. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the supplemental circular of the Company dated 17 May 2023 (the "**Circular**").

ORDINARY RESOLUTIONS

8. **THAT** (a) the execution of the Energy Purchase Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Energy Purchase Framework Agreement and the proposed annual caps for the three years ending 31 December 2023, 2024 and 2025 as set out in the Circular be and are hereby approved.

9. **THAT** (a) the execution of the APIs Purchase Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the APIs Purchase Agreement and the proposed annual caps for the three years ending 31 December 2023, 2024 and 2025 as set out in the Circular be and are hereby approved.

10. **THAT** (a) the execution of the Packaging and Production Materials Purchase Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement and the proposed annual caps for the three years ending 31 December 2023, 2024 and 2025 as set out in the Circular be and are hereby approved.

11. **THAT** (a) the execution of the Equipment Purchase and Civil Construction Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Equipment Purchase and Civil Construction Framework Agreement and the proposed annual caps for the three years ending 31 December 2023, 2024 and 2025 as set out in the Circular be and are hereby approved.

12. **THAT** (a) the execution of the Entrusted Processing Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Entrusted Processing Framework Agreement and the proposed annual caps for the three years ending 31 December 2023, 2024 and 2025 as set out in the Circular be and are hereby approved.

13. **THAT** (a) the execution of the Equipment Sales Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Equipment Sales Framework Agreement and the proposed annual cap for the year ending 31 December 2023 as set out in the Circular be and are hereby approved.

14. **THAT** (a) the execution of the Entrusted Production and Inspection Services Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Entrusted Production and Inspection Services Framework Agreement and the proposed annual caps for the three years ending 31 December 2023, 2024 and 2025 as set out in the Circular be and are hereby approved.

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

Hubei, the PRC
17 May 2023

Notes:

1. A supplemental form of proxy in respect of the ordinary resolutions numbered 8 to 14 mentioned above (the "**Supplemental Form of Proxy**") is enclosed with the supplemental notice of the AGM of the Company dated 17 May 2023. The Supplemental Form of Proxy will not affect the validity of any form of proxy duly completed by you in respect of the resolutions set out in the Notice. If you have validly appointed a proxy to attend and act for you at the AGM but do not complete and deliver the Supplemental Form of Proxy, your proxy will be entitled to vote at his/her discretion on the resolutions set out in the supplemental notice of the AGM. If you do not duly complete and deliver the original form of proxy for the AGM but have duly completed and delivered the Supplemental Form of Proxy and validly appointed a proxy to attend and act for you at the AGM, your proxy will be entitled to vote at his/her discretion on the resolutions set out in the Notice.

2. Please refer to the Notice for details in respect of the other resolutions to be passed at the AGM, eligibility for attending the AGM, proxy, registration procedures and other relevant matters in relation to the AGM.

As at the date of this supplemental 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.