
THIS SUPPLEMENTAL CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this supplemental circular or as to the action to be taken, you should consult your licensed securities dealer, 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. (the “Company”), you should at once hand this supplemental circular with the enclosed supplemental form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this supplemental circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of 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)

**REVISION OF ANNUAL CAPS OF
CONTINUING CONNECTED TRANSACTIONS
1. ENERGY PURCHASE FRAMEWORK AGREEMENT
2. APIS PURCHASE AGREEMENT
3. PACKAGING AND PRODUCTION MATERIALS
PURCHASE FRAMEWORK AGREEMENT
4. ENTRUSTED PROCESSING FRAMEWORK AGREEMENT
AND
SUPPLEMENTAL NOTICE OF EGM**

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



A letter from the Board is set out on pages 4 to 21 of this supplemental circular.

A supplemental notice convening the EGM to be held at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC on Wednesday, 27 December 2023 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this supplemental circular. The supplemental form of proxy for use at the EGM is also enclosed. The supplemental form of proxy is also published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.hec-changjiang.com). This supplemental circular shall be read together with the circular and a notice convening the EGM of the Company dated 1 December 2023.

Whether or not you intend to attend the EGM, you are requested to complete the accompanying supplemental form of proxy in accordance with the instructions printed thereon and return the same to the Company's Board office at Securities Department, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC for Domestic Shareholders, or the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for H Shareholders not less than 24 hours before the time appointed for the EGM (or any adjournment thereof) (i.e. before 10:00 a.m. on Tuesday, 26 December 2023). Please note that 26 December 2023 is not a working day in Hong Kong and Computershare Hong Kong Investor Services Limited's office will not be opened on this day for physical delivery of the supplemental form of proxy. Completion and return of the supplemental form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so desire.

8 December 2023

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	IBC-1
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	IFA-1
APPENDIX I — GENERAL INFORMATION	I-1
SUPPLEMENTAL NOTICE OF 2023 THIRD EXTRAORDINARY GENERAL MEETING	EGM-1

DEFINITIONS

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

“APIs”	certain active pharmaceutical ingredients such as Aripiprazole, Rivaroxaban, Escitalopram Oxalate, Clarithromycin
“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
“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
“EGM”	the 2023 third extraordinary general meeting of Shareholders 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 Wednesday, 27 December 2023
“EGM Notice”	the supplemental notice convening the EGM which is set out on pages EGM-1 to EGM-3 of this supplemental circular
“Energy”	electricity and steam power
“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
“Group”	the Company and its subsidiaries

DEFINITIONS

“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 HKD
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HKD” or “HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee (comprising Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen, all being independent non-executive Directors) established by the Company to advise the independent Shareholders in respect of each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement and the transactions contemplated thereunder (including the revised proposed annual caps)
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the independent Shareholders in respect of each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement and the transactions thereunder (including the revised proposed annual caps)
“Latest Practicable Date”	4 December 2023, being the latest practicable date prior to the printing of this supplemental circular for ascertaining certain information referred to in this supplemental circular
“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
“Packaging Materials”	specific packaging materials and production materials for packaging and production of the drugs manufactured by the Group

DEFINITIONS

“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 People’s Republic of China and Taiwan
“Processing Services”	processing services for the Company’s certain pharmaceutical products, including Olmesartan Tablets, Moxifloxacin Tablets, Clarithromycin Tablets, Aripiprazole Tablets, Levofloxacin Tablets, Rivaroxaban Tablets, Duloxetine Enteric-coated Capsules, Escitalopram Oxalate Tablets, Xadafil Tablets, Aripiprazole Orally Disintegrating Tablets, Entacapone Tablets, Rongliflozin and other APIs
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	issued share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“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.* (廣東東陽光藥業股份有限公司), a company incorporated in the PRC on 29 December 2003, and a controlling Shareholder of the Company
“%”	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).*

** For identification purpose only*

LETTER FROM THE BOARD



YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司

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

(Stock Code: 01558)

Board of directors:

Executive directors

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

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

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

Non-executive director

Mr. TANG Xinfa

*Principal Place of Business
in Hong Kong:*

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

Independent non-executive directors

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

8 December 2023

To the Shareholders

Dear Sir or Madam,

**REVISION OF ANNUAL CAPS OF
CONTINUING CONNECTED TRANSACTIONS
1. ENERGY PURCHASE FRAMEWORK AGREEMENT
2. APIS PURCHASE AGREEMENT
3. PACKAGING AND PRODUCTION MATERIALS
PURCHASE FRAMEWORK AGREEMENT
4. ENTRUSTED PROCESSING FRAMEWORK AGREEMENT
AND
SUPPLEMENTAL NOTICE OF EGM**

I. INTRODUCTION

Reference is made to (i) the announcements of the Company dated 10 February 2023, 27 February 2023, 30 October 2023 and 7 November 2023 (the “**Announcement(s)**”), (ii) the circular of the Company dated 17 May 2023 (the “**Previous Circular**”); and (iii) the poll results announcement of the Company dated 2 June 2023, in relation to, among others, the continuing connected transactions between the Company and Shenzhen HEC Industrial.

LETTER FROM THE BOARD

The purpose of this supplemental circular is to provide you with further information in relation to proposed revision of annual caps under each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement including, *inter alia*, (i) further details of proposed revised annual caps for the years ending 31 December 2023, 2024 and 2025 under each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement; (ii) the recommendation of the Independent Board Committee to the independent Shareholders in relation to proposed revised annual caps under each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the independent Shareholders in relation to proposed revised annual caps for the years ending 31 December 2023, 2024 and 2025 under each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement and the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement; and (iv) a supplemental notice of the EGM. This supplemental circular should be read together with the circular of the Company dated 1 December 2023.

II. ENERGY PURCHASE FRAMEWORK AGREEMENT

As disclosed in the Previous Circular, the Company and Shenzhen HEC Industrial entered into the Energy Purchase Framework Agreement in relation to supply of Energy by Shenzhen HEC Industrial, under which the annual caps for each of the three years ending 31 December 2023, 2024 and 2025 were RMB50,400,000, RMB56,750,000 and RMB56,750,000, respectively.

Historical Transaction Amount

For the nine months ended 30 September 2023, the transaction amount under the Energy Purchase Framework Agreement amounted to approximately RMB37,223,000, representing approximately 73.9% of the original annual cap for the year ending 31 December 2023 with only approximately one-fourth of the original annual cap available for the Group's energy consumption in the fourth quarter of 2023.

For the ten months ended 31 October 2023, the transaction amount under the Energy Purchase Framework Agreement amounted to approximately RMB41,515,000, representing approximately 82.4% of the original annual cap for the year ending 31 December 2023.

The Board further confirmed that the transaction amount under the Energy Purchase Framework Agreement has not exceeded the annual cap for the year ending 31 December 2023 under the Energy Purchase Framework Agreement as at the Latest Practicable Date.

LETTER FROM THE BOARD

Revision of the original annual cap

It is expected that the Group's demand for Energy will be higher in the fourth quarter of 2023 in light of the historical energy consumption pattern with higher demand for electricity in winter, and the fact that the insulin factory of the Group has commenced production recently. Based on the expected monthly average transaction amount in the fourth quarter of 2023 under the Energy Purchase Framework Agreement, the Company expected they would further purchase Energy from Shenzhen HEC Industrial Group with an amount of approximately RMB14,117,000 in the fourth quarter of 2023. Accordingly, to satisfy the Group's Energy demand for the year ending 31 December 2023, the Board intend to increase the annual cap under the Energy Purchase Framework Agreement for the year ending 31 December 2023.

After taking into consideration the estimated demand for Energy of the Group, the Board proposed to revise the original annual cap under the Energy Purchase Framework Agreement for the year ending 31 December 2023 as follows:

	Annual cap for the year ending 31 December 2023 (RMB)
Original annual cap	50,400,000
Upward adjustment	<u>940,000</u>
Revised Annual cap	<u><u>51,340,000</u></u>

Save for the revised annual cap for the year ending 31 December 2023, all other terms of the Energy Purchase Framework Agreement as disclosed in the Previous Circular remain unchanged.

The revised annual cap for the year ending 31 December 2023 under the Energy Purchase Framework Agreement is determined with reference to (1) the historical transaction amount under the Energy Purchase Framework Agreement for the nine months ended 30 September 2023; (2) the expected production output of the Group's insulin factory; and (3) the estimated transaction amount for the Energy purchased from Shenzhen HEC Industrial Group in the fourth quarter of 2023.

In order to control the amount of the annual cap, the Company will prioritise the purchasing and handling of Energy urgently needed for the production and operation in the fourth quarter of 2023, and give priority to entrusting connected person to process orders urgently needed for the production in the fourth quarter of 2023. At the same time, the Company will also slow down as much as possible or postpone the processing of related materials to be purchased and used in advance as well as orders to be commissioned for production at the beginning of 2024.

LETTER FROM THE BOARD

Pricing Policy

Purchase price for Energy was primarily determined in accordance with (i) the reply letter from the Price Bureau of Yichang Municipal* (宜昌市物價局) 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), 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 Yichang Investment Promotion Bureau* (宜昌市招商局) from time to time.

The terms of the Energy Purchase Framework Agreement has not been changed or modified in any way and the major terms (including pricing policy) are set out in the section headed “CONTINUING CONNECTED TRANSACTIONS PROVIDED BY SHENZHEN HEC INDUSTRIAL GROUP TO THE GROUP — 1. Energy Purchase Framework Agreement” in the Previous Circular.

Reasons for and benefits of the revised annual cap

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 Directors (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 Adviser) consider that the revised annual cap under the Energy Purchase Framework Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

III. APIS PURCHASE AGREEMENT

As disclosed in the Previous Circular, the Company and Shenzhen HEC Industrial entered into the APIs Purchase Agreement in relation to purchase of certain APIs from Shenzhen HEC Industrial with annual caps of RMB38,946,300, RMB53,786,800 and RMB75,442,100 for each of the three years ending 31 December 2023, 2024 and 2025, respectively.

Historical Transaction Amount

As disclosed in the Company’s announcement dated 30 October 2023, for the nine months ended 30 September 2023, the transaction amount under the APIs Purchase Agreement amounted to approximately RMB29,358,000, representing approximately 75.4% of the original annual cap for the year ending 31 December 2023.

For the ten months ended 31 October 2023, the transaction amount under the APIs Purchase Agreement amounted to approximately RMB32,506,600, representing approximately 83.5% of the original annual cap for the year ending 31 December 2023.

LETTER FROM THE BOARD

The Board further confirmed that the transaction amount under the APIs Purchase Agreement has not exceeded the annual cap for the year ending 31 December 2023 under the APIs Purchase Agreement as at the Latest Practicable Date.

Therefore, in order to satisfy the Group's growing production needs and expected future expansion in the output level of the Group, in addition to the proposed revision of the annual cap under the APIs Purchase Agreement for the year ending 31 December 2023, the Board intends to increase the annual caps under the APIs Purchase Agreement for the years ending 31 December 2023, 2024 and 2025.

Revision of the original annual cap

Based on the purchase contracts (legally binding and represents maximum procurement amount) of Sofosbuvir (索磷布韋), Clarithromycin (克拉霉素) and Rivaroxaban (利伐沙班) entered into between the Group and Shenzhen HEC Industrial Group in second and third quarters of 2023, for the manufacturing of innovative products and fulfil the external orders of relevant pharmaceutical products. After taking into consideration the production capacity of the Group's facilities and the expected demand for the products of the Group, the Board proposed to revise the original annual cap under the APIs Purchase Agreement for the years ending 31 December 2023, 2024 and 2025 as follows:

	Annual cap for the year ending 31 December 2023 (RMB)	Annual cap for the year ending 31 December 2024 (RMB)	Annual cap for the year ending 31 December 2025 (RMB)
Original annual cap	38,946,300	53,786,800	75,442,100
Upward adjustment	20,000,000	20,000,000	20,000,000
Revised annual cap	58,946,300	73,786,800	95,442,100

Save for the revised annual cap for the years ending 31 December 2023, 2024 and 2025, all other terms of the APIs Purchase Agreement as disclosed in the Previous Circular remain unchanged.

The revised annual cap for the years ending 31 December 2023, 2024 and 2025 under the APIs Purchase Agreement is determined with reference to (1) the historical transaction amounts paid by the Group for APIs in the past financial years and the nine months ended 30 September 2023; (2) the expected needs of APIs as raw materials for the Group's production. The Group expects transaction amount for the purchase of APIs from Shenzhen HEC Industrial Group in the fourth quarter of 2023 will be approximately RMB29,588,300 (among which, the Group's anticipated transaction amount for the purchase of Sofosbuvir (索磷布韋), Clarithromycin (克拉霉素) and Rivaroxaban (利伐沙

LETTER FROM THE BOARD

班) from Shenzhen HEC Industrial Group collectively accounts for over 95% of the Group's expected transaction amount for the purchase of APIs from Shenzhen HEC Industrial Group in the fourth quarter of 2023); (3) the estimated maximum additional demand of approximately RMB20,000,000 for the Group's Sofosbuvir (索磷布韋), Clarithromycin (克拉霉素) and Rivaroxaban (利伐沙班) products for each of the years ending 31 December 2023, 2024 and 2025; and (4) expected increase in transaction amounts in the future due to the Group's business development.

In order to control the amount of the annual cap, the Company will prioritise the purchasing and handling of APIs urgently needed for the production and operation in the fourth quarter of 2023, and give priority to entrusting connected person to process orders urgently needed for the production in the fourth quarter of 2023. At the same time, the Company will also slow down as much as possible or postpone the processing of related materials to be purchased and used in advance as well as orders to be commissioned for production at the beginning of 2024.

Pricing Policy

The terms of the APIs Purchase Agreement has not been changed or modified in any way and the major terms (including pricing policy) are set out in the section headed "CONTINUING CONNECTED TRANSACTIONS PROVIDED BY SHENZHEN HEC INDUSTRIAL GROUP TO THE GROUP — 2. APIs Purchase Agreement" in the Previous Circular.

Reasons for and benefits of the revised annual cap

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 the Group 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 Directors (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 Adviser) consider that the revised proposed annual cap under the APIs Purchase Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

IV. PACKAGING AND PRODUCTION MATERIALS PURCHASE FRAMEWORK AGREEMENT

As disclosed in the Previous Circular, the Company and Shenzhen HEC Industrial entered into Packaging and Production Materials Purchase Framework Agreement in relation to purchase of Packaging Materials for packaging and production of the drugs manufactured by the Group from Shenzhen HEC Industrial, pursuant to which the annual caps thereunder for each of the three years ending 31 December 2023, 2024 and 2025 were RMB40,600,000, RMB40,600,000 and RMB40,600,000, respectively.

Historical Transaction Amount

As disclosed in the Company's announcement dated 30 October 2023, for the nine months ended 30 September 2023, the transaction amount under the Packaging and Production Materials Purchase Framework Agreement amounted to approximately RMB30,520,000, representing approximately 75.2% of the original annual cap for the year ending 31 December 2023.

For the ten months ended 31 October 2023, the transaction amount under the Packaging and Production Materials Purchase Framework Agreement amounted to approximately RMB35,612,700, amounted to approximately 87.7% of the original annual cap for the year ending 31 December 2023.

The Board further confirmed that the transaction amount under the Packaging and Production Materials Purchase Framework Agreement has not exceeded the annual cap for the year ending 31 December 2023 under the Packaging and Production Materials Purchase Framework Agreement as at the Latest Practicable Date.

With reference to the growing production capacity and expected future expansion of output level of the Group, in order to satisfy the Group's production needs, in addition to the proposed revision of the annual cap under the Packaging and Production Materials Purchase Framework Agreement for the year ending 31 December 2023, the Board intends to increase the annual cap under the Packaging and Production Materials Purchase Framework Agreement for the years ending 31 December 2023, 2024 and 2025.

LETTER FROM THE BOARD

Revision of the original annual cap

Based on the increasing market demand of the core products of the Group, after taking into consideration the expected sales volume of the drugs manufactured by the Group and the inventories of the Group, the Board proposed to revise the original annual cap under the Packaging and Production Materials Purchase Framework Agreement for the years ending 31 December 2023, 2024 and 2025 as follows:

	Annual cap for the year ending 31 December 2023 (RMB)	Annual cap for the year ending 31 December 2024 (RMB)	Annual cap for the year ending 31 December 2025 (RMB)
Original annual cap	40,600,000	40,600,000	40,600,000
Upward adjustment	8,000,000	8,000,000	8,000,000
Revised annual cap	48,600,000	48,600,000	48,600,000

Save for the revised annual cap for the years ending 31 December 2023, 2024 and 2025, all other terms of the Packaging and Production Materials Purchase Framework Agreement as disclosed in the Previous Circular remain unchanged.

The revised annual cap for the years ending 31 December 2023, 2024 and 2025 under the Packaging and Production Materials Purchase Framework Agreement is determined with reference to (1) the historical transaction amounts; (2) the expected transaction amount for the purchase of Packaging Materials from Shenzhen HEC Industrial Group in the fourth quarter of 2023 amounted to approximately RMB18,080,000; and (3) the estimated market demand for each of the years ending 31 December 2023, 2024 and 2025.

In order to control the amount of the annual cap, the Company will prioritise the purchasing and handling of Packaging Materials urgently needed for the production and operation in the fourth quarter of 2023, and give priority to entrusting connected person to process orders urgently needed for the production in the fourth quarter of 2023. At the same time, the Company will also slow down as much as possible or postpone the processing of related materials to be purchased and used in advance as well as orders to be commissioned for production at the beginning of 2024.

LETTER FROM THE BOARD

Pricing Policy

When selecting third-party suppliers of Packaging Materials, the Company has obtained quotations from Shenzhen HEC Industrial and at least two independent third-party suppliers. The Directors consider that the prices and terms offered by Shenzhen HEC Industrial were fair and reasonable, on normal commercial terms, and in any event no less favorable to the Group than those available from independent third parties.

The terms of the Packaging and Production Materials Purchase Framework Agreement has not been changed or modified in any way and the major terms (including pricing policy) are set out in the section headed “CONTINUING CONNECTED TRANSACTIONS PROVIDED BY SHENZHEN HEC INDUSTRIAL GROUP TO THE GROUP — 3. Packaging and Production Materials Purchase Framework Agreement” in the Previous Circular.

Reasons for and benefits of the revised annual cap

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 Directors (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 Adviser) consider that the revised proposed annual cap under the Packaging and Production Materials Purchase Framework Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

V. ENTRUSTED PROCESSING FRAMEWORK AGREEMENT

As disclosed in the Previous Circular, the Company and Shenzhen HEC Industrial entered into the Entrusted Processing Framework Agreement in relation to purchase of Processing Services from Shenzhen HEC Industrial, under which the annual caps for each of the three years ending 31 December 2023, 2024 and 2025 were RMB94,805,500, RMB108,832,000 and RMB139,468,200, respectively.

Historical Transaction Amount

For the nine months ended 30 September 2023, the transaction amount under the Entrusted Processing Framework Agreement amounted to approximately RMB66,246,900, representing approximately 69.9% of the original annual cap for the year ending 31 December 2023 with only approximately one-third of the original annual cap available for the purchasing Processing Service by the Group in the fourth quarter of 2023, and it is expected to be insufficient to meet the demand of Processing Services by the Group in the fourth quarter of 2023.

LETTER FROM THE BOARD

For the ten months ended 31 October 2023, the transaction amount under the Entrusted Processing Framework Agreement amounted to approximately RMB74,701,000, representing approximately 78.8% of the original annual cap for the year ending 31 December 2023.

The Board further confirmed that the transaction amount under the Entrusted Processing Framework Agreement has not exceeded the annual cap for the year ending 31 December 2023 under the Entrusted Processing Framework Agreement as at the Latest Practicable Date.

Therefore, in order to satisfy the need of Processing Services to meet high market demand of certain pharmaceutical products, the Board intends to increase the annual cap under the Entrusted Processing Framework Agreement for the year ending 31 December 2023.

Revision of the original annual cap

After taking into consideration the estimated demand of Processing Services of the Group to meet the high market demand of certain pharmaceutical products, the Board proposed to revise the original annual cap under the Entrusted Processing Framework Agreement for the year ending 31 December 2023 as follows:

	Annual cap for the year ending 31 December 2023 (RMB)
Original annual cap	94,805,500
Upward adjustment	11,000,000
Revised annual cap	105,805,500

Save for the revised annual cap for the year ending 31 December 2023, all other terms of the Entrusted Processing Framework Agreement as disclosed in the Previous Circular remain unchanged.

The revised annual cap for the year ending 31 December 2023 under the Entrusted Processing Framework Agreement is determined with reference to (1) the historical transaction amounts; and (2) the estimated demand of Processing Services of the Group to meet the high external and internal orders of certain generic drugs in the fourth quarter of 2023.

In order to control the amount of the annual cap, the Company will prioritise the purchasing and handling of Processing Services urgently needed for the production and operation in the fourth quarter of 2023, and give priority to entrusting connected person to process orders urgently needed for the production in the fourth quarter of 2023. At the same time, the Company will also slow down as much as possible or postpone the processing of related materials to be purchased and used in advance as well as orders to be commissioned for production at the beginning of 2024.

LETTER FROM THE BOARD

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% to 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.

The terms of the Entrusted Processing Framework Agreement has not been changed or modified in any way and the major terms (including pricing policy) are set out in the section headed “CONTINUING CONNECTED TRANSACTIONS PROVIDED BY SHENZHEN HEC INDUSTRIAL GROUP TO THE GROUP — 5. Entrusted Processing Framework Agreement” in the Previous Circular.

Reasons for and benefits of the revised annual cap

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 Directors (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 Adviser) consider that the revised proposed annual cap under the Entrusted Processing Framework Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

VI. INFORMATION OF THE PARTIES

The Company

The Company is a pharmaceutical manufacturing company that focuses on the production, sales and development of pharmaceutical products in the therapeutic areas of anti-infectives, endocrine and metabolism. 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.

VII. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Sunshine Lake Pharma has the right to control the exercise of approximately 51.41% of the voting rights in 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.

Pursuant to Rule 14A.54, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will have to re-comply with the relevant provisions under Chapter 14A of the Listing Rules in relation to the relevant continuing connected transactions. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the revised proposed annual caps for the years ending 31 December 2023, 2024 and 2025 of each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement when aggregated with the transactions entered into between the Group and Shenzhen HEC Industrial Group in the preceding 12 months exceeds 5% pursuant to Rule 14A.81 of the Listing Rules, such transactions and the proposed annual caps contemplated thereunder are subject to the reporting, announcement, circular, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

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.

VIII. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 14A.39 of the Listing Rules, where a connected transaction requires shareholders' approval, the listed issuer must (1) establish an independent board committee; and (2) appoint an independent financial adviser.

Independent Board Committee

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen, has been established to advise the independent Shareholders in respect of each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the proposed revised annual caps for each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement. 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.

Independent Financial Adviser

The Company has appointed Gram Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders in respect of the proposed revised annual caps for each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement.

LETTER FROM THE BOARD

The Independent Financial Adviser considers that each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement 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 Adviser recommends the independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the proposed revised annual caps for each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement. The full text of the letter from Independent Financial Adviser issued by Gram Capital Limited containing its recommendation in respect of each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement is set out on pages IFA-1 to IFA-15 of this supplemental circular.

IX. 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 from January to 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 two months, the personnel of the finance department shall notify the Board immediately to determine the appropriate action to be taken such as re-calculating the annual caps for the relevant year, so as to monitor the Group's total transaction amounts to ensure the proposed annual caps will not be exceeded. The Company will commence the process to increase annual caps (including to obtain Shareholders' approval) and leave approximately 2 to 3 months to complete such process;
- (2) The 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;

LETTER FROM THE BOARD

- (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) 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;
- (6) 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;
- (7) 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;
- (8) 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;
- (9) 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

LETTER FROM THE BOARD

- (10) 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 considers that the above measures and procedures can ensure that the pricing and other 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 Chapter 14A of the Listing Rules.

X. EGM AND VOTING METHOD

The EGM 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 Wednesday, 27 December 2023. The supplemental notice of the EGM sets out additional resolutions in relation to each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement, is set out on pages EGM-1 to EGM-3 of this supplemental circular, and it should be read together with the notice of EGM of the Company dated 1 December 2023. A supplemental form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of the Company and the Stock Exchange.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder who has a material interest in the relevant connected transaction is required to abstain from voting on the relevant resolution at the EGM. As at the Latest Practicable Date, Sunshine Lake Pharma has the right to control the exercise of approximately 51.41% of the voting rights of the Company, and is therefore a controlling Shareholder and a connected person of the Company, and has a material interest in each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement, therefore is required to abstain from voting on the relevant resolutions at the EGM. Shenzhen HEC Industrial is the holding company of Sunshine Lake Pharma. Therefore, Shenzhen HEC Industrial and its associates (such as HEC (Hong Kong) Sales Co., Limited) shall abstain from voting on the resolutions in relation to each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement.

LETTER FROM THE BOARD

Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no other Shareholder has a material interest in each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement, and therefore no other Shareholder is required to abstain from voting on the relevant resolutions at the EGM.

Whether or not you intend to attend the EGM, you are requested to complete the accompanying supplemental form of proxy in accordance with the instructions printed thereon and return the same to the Company's Board office at Securities Department, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC (for holders of Domestic Shares) or to the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares). In any event, such form of proxy must be returned no later than 24 hours before the time appointed for the EGM (i.e. before 10:00 a.m. on Tuesday, 26 December 2023) or any adjournment thereof. Please note that 26 December 2023 is not a working day in Hong Kong and Computershare Hong Kong Investor Services Limited's office will not be opened on this day for physical delivery of the supplemental form of proxy. Completion and return of the supplemental form of proxy shall not preclude you from attending, and voting in person at the EGM or any adjournment thereof if you so desire.

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

XI. RECORD DATE AND CLOSURE OF REGISTER OF MEMBERS

The record date for entitlement to attend and vote at the EGM is Wednesday, 20 December 2023. For the purpose of determining the Shareholders' eligibility to attend and vote at the EGM, the register of members of the Company will be closed on Wednesday, 20 December 2023 to Wednesday, 27 December 2023 (both days inclusive), during which no transfer of shares will be registered.

In order to qualify for attending and voting at the EGM, all unregistered holders of H shares of the Company shall lodge transfer documents accompanied by the relevant share certificates with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wan Chai, Hong Kong for registration before 4:30 p.m. on Tuesday, 19 December 2023.

LETTER FROM THE BOARD

XII. 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 render any statement herein or this supplemental circular misleading.

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)

8 December 2023

To the Independent Shareholders

Dear Sir or Madam,

**REVISION OF ANNUAL CAPS OF
CONTINUING CONNECTED TRANSACTIONS**

- 1. ENERGY PURCHASE FRAMEWORK AGREEMENT**
- 2. APIS PURCHASE AGREEMENT**
- 3. PACKAGING AND PRODUCTION MATERIALS
PURCHASE FRAMEWORK AGREEMENT**
- 4. ENTRUSTED PROCESSING FRAMEWORK AGREEMENT**

We refer to the supplemental circular of the Company dated 8 December 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 each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement and to advise the independent Shareholders in respect of each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement. Gram Capital Limited has been appointed as the Independent Financial Adviser in this regard.

We wish to draw your attention to the “Letter from the Board” and the “Letter from the Independent Financial Adviser” as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in their letter of advice, we consider the terms of each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and the revised proposed annual caps are on normal commercial terms, are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

that the independent Shareholders vote in favour of the resolutions in relation to the proposed revised annual caps for each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement at the EGM.

Yours faithfully

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

TANG Jianxin

*Independent non-executive
director*

XIANG Ling

*Independent non-executive
director*

LI Xuechen

*Independent non-executive
director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement for the purpose of inclusion in this supplemental circular.



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

8 December 2023

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

Dear Sir/Madam,

REVISION OF ANNUAL CAPS OF 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 (i) the revision of the original annual cap under the Energy Purchase Framework Agreement for the year ending 31 December 2023 (the “**Energy Cap Revision**”); (ii) the revision of the original annual caps under the APIs Purchase Agreement for the three years ending 31 December 2025 (the “**APIs Caps Revision**”); (iii) the revision of the original annual caps under the Packaging and Production Materials Purchase Framework Agreement for the three years ending 31 December 2025 (the “**Packaging and Production Materials Caps Revision**”); and (iv) the revision of the original annual cap under the Entrusted Processing Framework Agreement for the year ending 31 December 2023 (the “**Entrusted Processing Cap Revision**”, together with the Energy Cap Revision, the APIs Caps Revision and the Packaging and Production Materials Caps Revision, the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the supplemental circular dated 8 December 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As advised by the Directors, the existing annual caps of the transactions contemplated under the Energy Purchase Framework Agreement and the Entrusted Processing Framework Agreement for the year ending 31 December 2023 (“**FY2023**”); and the existing annual caps of the transactions contemplated under the APIs Purchase Agreement and the Packaging and Production Materials Purchase Framework Agreement for the three years ending 31 December

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2025 may not be sufficient, the Directors proposed to revise the relevant existing annual caps. The supplemental agreements for the aforesaid matters were entered into between the Company and Shenzhen HEC Industrial on 7 November 2023.

With reference to the Board Letter, the Transactions have to re-comply with the relevant provisions under Chapter 14A of the Listing Rules in relation to the relevant continuing connected transactions 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 Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as an independent financial adviser in relation to (i) continuing connected transactions, details of which were set out in the Company's circular dated 2 August 2022; (ii) major and connected transactions, details of which were set out in the Company's circular dated 10 March 2023; (iii) continuing connected transactions, details of which were set out in the Company's circular dated 17 May 2023; and (iv) continuing connected transactions, details of which were set out in the Company's circular dated 1 December 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

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

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company and Shenzhen HEC Industrial Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the 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 Transactions, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Transactions

Information on the Company

With reference to the Board Letter, the Company is a pharmaceutical manufacturing company that focuses on the production, sales and development of pharmaceutical products in the therapeutic areas of anti-infectives, endocrine and metabolism. 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 Transactions

As advised by the Directors, the products/services under certain continuing connected transactions (including the transactions contemplated under the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement) 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. Furthermore, as the aforesaid 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). For instance,

- 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- 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 the Group 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.
- 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.
- 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.

Based on the above, we consider that the abovementioned 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 Shareholders as a whole.

However, historical amounts of abovementioned continuing connected transactions for the nine months ended 30 September 2023 accounted for approximately 70% to 75% to their respective annual caps for FY2023. The Directors anticipated that the existing annual caps of the abovementioned continuing connected transactions may not be sufficient. Therefore, the Directors proposed to revise the existing annual caps for abovementioned continuing connected transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered (i) the reasons for and benefits of the abovementioned continuing connected transactions, which are in the interest of the Company and the Shareholders as a whole; (ii) the existing annual caps of the abovementioned continuing connected transactions may not be sufficient; (iii) our analyses on the revised annual caps as set out in this letter; and (iv) the Transactions allow the Group to have sufficient room for conducting further relevant transactions with Shenzhen HEC Industrial Group, we consider that the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interest of the Company and the Independent Shareholders as a whole.

3. The revised annual caps

A. Energy Cap Revision

After taking into consideration the estimated demand for Energy of the Group, the Board proposed to revise the original annual cap under the Energy Purchase Framework Agreement from RMB50,400,000 to RMB51,340,000 for FY2023 (the “**Revised Energy Cap**”). Please refer to sub-section headed “Revision of the original annual cap” under the section headed “II. ENERGY PURCHASE FRAMEWORK AGREEMENT” of the Board Letter for bases for determination of the Revised Energy Cap.

As stated in the Board Letter, save for the Revised Energy Cap, all other terms of the Energy Purchase Framework Agreement as disclosed in the Previous Circular remain unchanged.

As advised by the Directors, the Revised Energy Cap was calculated (the “**Revised Energy Cap Calculation**”) with reference to (i) the Group’s historical transaction amount under the Energy Purchase Framework Agreement for the nine months ended 30 September 2023; and (ii) the Group’s anticipated transaction amount for the Energy purchased from Shenzhen HEC Industrial Group in the fourth quarter of 2023 (“**2023Q4**”).

For our due diligence purpose, we obtained the Revised Energy Cap Calculation from the Company and noted the following:

- (i) the Group’s historical transaction amount under the Energy Purchase Framework Agreement for the nine months ended 30 September 2023 was approximately RMB37,223,000, representing approximately 73.9% of the original annual cap of RMB50,400,000 for FY2023;
- (ii) the Group’s anticipated transaction amount for the Energy purchased from Shenzhen HEC Industrial Group in 2023Q4 amounted to approximately RMB14,117,000 (the “**Anticipated Energy Amount**”);
- (iii) the sum of (i) and (ii) equals to the Revised Energy Cap.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the Anticipated Energy Amount, upon our request, the Company provided us with the breakdown of the historical transaction amount under the Energy Purchase Framework Agreement for the year ended 31 December 2022 and nine months ended 30 September 2023. For our due diligence purpose, we checked the historical transaction amount under the Energy Purchase Framework Agreement for the year ended 31 December 2022 as applied in the breakdown against the company's annual report for the year ended 31 December 2022 (the "**2022 Annual Report**"), and noted that such historical transaction amount equals to that as disclosed in the 2022 Annual Report. According to the aforesaid breakdown, we noted that (i) the proportion of the Anticipated Energy Amount to the Revised Energy Cap is approximately the same as the proportion of the historical transaction amount for the three months ended 31 December 2022 to the historical transaction amount for the year ended 31 December 2022; and (ii) the anticipated average transaction amount per month under the Anticipated Energy Amount (i.e. approximately RMB4,706,000) is close to the historical transaction amount under the Energy Purchase Framework Agreement for the nine months ended 30 September 2023. Hence, we consider the Anticipated Energy Amount to be justifiable.

Having considered the above, we consider the Energy Cap Revision to be fair and reasonable.

Shareholders should note that as the Energy Cap Revision is relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, and they do not represent forecasts of cost to be incurred under the Energy Purchase Framework Agreement. Consequently, we express no opinion as to how closely the actual cost to be incurred under the Energy Purchase Framework Agreement will correspond with the Energy Cap Revision.

B. APIs Caps Revision

After taking into consideration the production capacity of the Group's facilities and the expected demand for the products of the Group, the Board proposed to revise the original annual cap under the APIs Purchase Agreement from RMB38,946,300 to RMB58,946,300 for FY2023, from RMB53,786,800 to RMB73,786,800 for the year ending 31 December 2024 ("**FY2024**"); and from RMB75,442,100 to RMB95,442,100 for the year ending 31 December 2025 ("**FY2025**") (the "**Revised APIs Cap(s)**"), respectively. Please refer to sub-section headed "Revision of the original annual cap" under the section headed "III. APIS PURCHASE AGREEMENT" of the Board Letter for bases for determination of the Revised APIs Caps.

Save for the Revised APIs Caps, all other terms of the APIs Purchase Agreement as disclosed in the Previous Circular remain unchanged.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the Revised APIs Caps, we obtained the calculation of the Revised APIs Cap (the “**Revised APIs Caps Calculation**”) from the Company and discussed with the Directors the bases for determining the Revised APIs Caps.

Revised APIs Cap for FY2023

According to the Revised APIs Caps Calculation, the Revised APIs Cap for FY2023 was calculated with reference to (i) the Group’s historical transaction amount under the APIs Purchase Agreement for the nine months ended 30 September 2023; and (ii) the Group’s anticipated transaction amount for the purchase of APIs from Shenzhen HEC Industrial Group in 2023Q4.

In addition, we also noted from the Revised APIs Caps Calculation that:

- (i) the Group’s historical transaction amount under the APIs Purchase Agreement for the nine months ended 30 September 2023 was approximately RMB29,358,000, representing approximately 75.4% of the original annual cap of RMB38,946,300 for FY2023;
- (ii) the Group’s anticipated transaction amount for the purchase of APIs from Shenzhen HEC Industrial Group in 2023Q4 was approximately RMB29,588,300 (among which, the Group’s anticipated transaction amount for the purchase of Sofosbuvir (索磷布韋), Clarithromycin (克拉霉素) and Rivaroxaban (利伐沙班) from Shenzhen HEC Industrial Group collectively accounts for over 95% of the Group’s anticipated transaction amount for the purchase of APIs from Shenzhen HEC Industrial Group in 2023Q4).
- (iii) the sum of (i) and (ii) equals to the Revised APIs Cap for FY2023.

In respect of the anticipated transaction amount for the purchase of Sofosbuvir (索磷布韋), Clarithromycin (克拉霉素) and Rivaroxaban (利伐沙班) from Shenzhen HEC Industrial Group in 2023Q4, for our due diligence purpose, we obtained and reviewed the corresponding purchase contracts signed between the Group and Shenzhen HEC Industrial Group in second and third quarters of 2023 (the “**Purchase Contracts**”). As advised by the Directors, (i) as at 30 September 2023, the purchase for the aforesaid APIs pursuant to the Purchase Contracts was nil; (ii) the transactions contemplated under the Purchase Contracts were expected to be completed in 2023; and (iii) the entering into of the Purchase Contracts were due to the manufacturing of innovative products and fulfil the external orders of relevant pharmaceutical products. The anticipated transaction amount for the purchase of Sofosbuvir (索磷布韋), Clarithromycin (克拉霉素) and Rivaroxaban (利伐沙班) from Shenzhen HEC Industrial Group in 2023Q4 equals to the contract amounts as stated in the Purchase Contracts.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above, we consider the Revised APIs Cap for FY2023 to be fair and reasonable.

Revised APIs Caps for FY2024 and FY2025

According to the Revised APIs Caps Calculation, we noted that (i) the upward adjustments for the annual caps for each of the two years ending 31 December 2025 (i.e. RMB20,000,000) (the “**FY2024 & FY2025 APIs Caps Upward Adjustments**”) equals to that for FY2023 (i.e. RMB20,000,000); and (ii) the FY2024 & FY2025 APIs Caps Upward Adjustments was calculated with reference to (a) the anticipated increase in the purchase of Sofosbuvir (索磷布韋), Clarithromycin (克拉霉素) and Rivaroxaban (利伐沙班) from Shenzhen HEC Industrial Group for FY2024 and FY2025 (i.e. approximately RMB19,105,000); and (b) round up of approximately RMB895,000.

In respect of the anticipated increase in the purchase of Sofosbuvir (索磷布韋), Clarithromycin (克拉霉素) and Rivaroxaban (利伐沙班) from Shenzhen HEC Industrial Group for FY2024 and FY2025 (i.e. approximately RMB19,105,000), we noted from the Revised APIs Caps Calculation that such increase equals to that for FY2023. As advised by the Directors, the Company expects the aforementioned purchase contracts for the purchase of Sofosbuvir (索磷布韋), Clarithromycin (克拉霉素) and Rivaroxaban (利伐沙班) from Shenzhen HEC Industrial Group in 2023 to be recurring for FY2024 and FY2025.

Hence, we consider the FY2024 & FY2025 APIs Caps Upward Adjustments to be justifiable.

Having considered the above, we consider that the Revised APIs Caps for FY2024 and FY2025 to be fair and reasonable.

Accordingly, we consider the APIs Caps Revision to be fair and reasonable.

Shareholders should note that as the APIs Caps Revision is relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of cost to be incurred under the APIs Purchase Agreement. Consequently, we express no opinion as to how closely the actual cost to be incurred under the APIs Purchase Agreement will correspond with the APIs Caps Revision.

C. Packaging and Production Materials Caps Revision

After taking into consideration the expected sales volume of the drugs manufactured by the Group and the inventories of the Group, the Board proposed to revise the original annual cap under the Packaging and Production Materials Purchase Framework Agreement from RMB40,600,000 for the three years ending 31 December 2025 to RMB48,600,000 for the three years ending 31 December 2025 (the “**Revised Packaging and Production Materials Caps**”). Please refer to sub-section headed “Revision of the original annual cap” under the section headed “IV. PACKAGING AND PRODUCTION MATERIALS PURCHASE FRAMEWORK AGREEMENT” for bases for determination of the Revised Packaging and Production Materials Caps.

Save for the Revised Packaging and Production Materials Caps, all other terms of the Packaging and Production Materials Purchase Framework Agreement as disclosed in the Previous Circular remain unchanged.

To assess the fairness and reasonableness of the Revised Packaging and Production Materials Caps, we obtained the calculation of the Revised Packaging and Production Materials Caps (the “**Revised Packaging and Production Materials Caps Calculation**”) from the Company and discussed with the Directors the bases for determining the Revised Packaging and Production Materials Caps.

Revised Packaging and Production Materials Cap for FY2023

According to the Revised Packaging and Production Materials Caps Calculation, the Revised Packaging and Production Materials Cap for FY2023 was calculated with reference to (i) the Group’s historical transaction amount under the Packaging and Production Materials Purchase Framework Agreement for the nine months ended 30 September 2023; and (ii) the Group’s anticipated transaction amount for the purchase of Packaging Materials from Shenzhen HEC Industrial Group in 2023Q4.

In addition, we also noted from the Revised Packaging and Production Materials Caps Calculation that:

- (i) the Group’s historical transaction amount under the Packaging and Production Materials Purchase Framework Agreement for the nine months ended 30 September 2023 was approximately RMB30,520,000, representing approximately 75.2% of the original annual cap of RMB40,600,000 for FY2023;
- (ii) the Group’s anticipated transaction amount for the purchase of Packaging Materials from Shenzhen HEC Industrial Group in 2023Q4 amounted to approximately RMB18,080,000 (the “**Anticipated Packaging Materials Amount**”);

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) the sum of (i) and (ii) equals to the Revised Packaging and Production Materials Cap for FY2023.

In respect of the Anticipated Packaging Materials Amount for 2023Q4, we noted from the Revised Packaging and Production Materials Caps Calculation that the Anticipated Packaging Materials Amount was set based on the sum of (a) the anticipated amount of purchase of specific packaging materials in 2023Q4; and (b) the anticipated amount of purchase of production materials in 2023Q4.

Upon our further request, the Company provided us with the breakdown of the historical transaction amount under the Packaging and Production Materials Purchase Framework Agreement for the year ended 31 December 2022 and nine months ended 30 September 2023. For our due diligence purpose, we checked the historical transaction amount under the Packaging and Production Materials Purchase Framework Agreement for the year ended 31 December 2022 as applied in the breakdown against the 2022 Annual Report, and noted that such historical transaction amount equals to that as disclosed in the 2022 Annual Report. According to the breakdown, we noted the following:

- (i) the anticipated amount of purchase of production materials in 2023Q4 plus the historical transaction amount of purchase of production materials for nine months ended 30 September 2023 equals to the original estimated amount of purchase of production materials for FY2023 (i.e. RMB8,000,000, which was stated in the Previous Circular);
- (ii) the proportion of the anticipated amount of purchase of specific packaging materials for FY2023 (i.e. the historical transaction amount of purchase of specific packaging materials for the nine months ended 30 September 2023 plus the anticipated amount of purchase of specific packaging materials in 2023Q4) to the anticipated shipment volume of the drugs for FY2023 (which was annualised after taking into account the historical shipment volume of drugs for the year ended 31 December 2022 and the nine months ended 30 September 2023) is approximately the same as the proportion of the historical transaction amount of purchase of specific packaging materials for the year ended 31 December 2022 to the historical shipment volume of the drugs for the year ended 31 December 2022.

As further advised by the Directors, the demand for the specific packaging materials of the Company is closely related to the shipment volume of the drugs of the Company. Hence, we consider the Anticipated Packaging Materials Amount to be justifiable.

Having considered the above, we are of the view that the Revised Packaging and Production Materials Cap for FY2023 to be fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Revised Packaging and Production Materials Cap for FY2024 and FY2025

According to the Revised Packaging and Production Materials Caps Calculation, the Revised Packaging and Production Materials Caps for FY2024 and FY2025 equals to that for FY2023. As advised by the Directors, the demand for the purchase of Packaging Materials is closely related to the market demand for the core products of the Group. According to the Company's interim report for the six months ended 30 June 2023, we noted that (i) the sales volume of Kewei (being one of the Company's core products) for the six months ended 30 June 2023 represented an increase of approximately 186.4% as compared to the corresponding period in 2022; and (ii) the Group will follow the path of brand building with unswerving commitment to maintain Kewei as the No. 1 brand of anti-influenza drugs, with continuous effort in further cultivating the market potential of Kewei. Therefore, it is reasonable for the Group to at least set the Revised Packaging and Production Materials Cap for FY2024 and FY2025 with reference to that for FY2023. Hence, we are of the view that the Revised Packaging and Production Materials Cap for FY2024 and FY2025 to be fair and reasonable.

Accordingly, we consider the Packaging and Production Materials Caps Revision to be fair and reasonable.

Shareholders should note that as the Packaging and Production Materials Caps Revision is relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of cost to be incurred under the Packaging and Production Materials Purchase Framework Agreement. Consequently, we express no opinion as to how closely the actual cost to be incurred under the Packaging and Production Materials Purchase Framework Agreement will correspond with the Packaging and Production Materials Caps Revision.

D. Entrusted Processing Cap Revision

After taking into consideration the estimated demand of Processing Services of the Group to meet the high market demand of certain pharmaceutical products, the Board proposed to revise the original annual cap under the Entrusted Processing Framework Agreement from RMB94,805,500 to RMB105,805,500 for FY2023 (the "**Revised Entrusted Processing Cap**"). Please refer to sub-section headed "Revision of the original annual cap" under the section headed "V. ENTRUSTED PROCESSING FRAMEWORK AGREEMENT" for bases for determination of the Revised Entrusted Processing Cap.

Save for the Revised Entrusted Processing Cap, all other terms of the Entrusted Processing Framework Agreement as disclosed in the Previous Circular remain unchanged.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the Revised Entrusted Processing Cap, we obtained the calculation of the Revised Entrusted Processing Cap (the “**Revised Entrusted Processing Cap Calculation**”) from the Company and discussed with the Directors the bases for determining the Revised Entrusted Processing Cap.

According to the Revised Entrusted Processing Cap Calculation, the Revised Entrusted Processing Cap was calculated with reference to (i) the Group’s historical transaction amount under the Entrusted Processing Framework Agreement for the nine months ended 30 September 2023; and (ii) the Group’s anticipated transaction amount for the purchase of Processing Services from Shenzhen HEC Industrial Group in 2023Q4.

In addition, we also noted from the Revised Entrusted Processing Cap Calculation that:

- (i) the Group’s historical transaction amount under the Entrusted Processing Framework Agreement for the nine months ended 30 September 2023 was approximately RMB66,246,900, representing approximately 69.9% of the original annual cap of RMB94,805,500 for FY2023;
- (ii) the Group’s anticipated transaction amount for the purchase of Processing Services from Shenzhen HEC Industrial Group in 2023Q4 amounted to approximately RMB39,558,600 (the “**Anticipated Processing Services Amount**”);
- (iii) the sum of (i) and (ii) equals to the Revised Entrusted Processing Cap for FY2023.

In respect of the Anticipated Processing Services Amount, we further noted from the Revised Entrusted Processing Cap Calculation that the Anticipated Processing Services Amount included the anticipated transaction amount of the purchase of Processing Services for (i) generic drugs; and (ii) new pharmaceutical products for 2023Q4.

Anticipated transaction amount of the purchase of Processing Services for generic drugs for 2023Q4

According to the Revised Entrusted Processing Cap Calculation, we understood that the anticipated transaction amount of the purchase of Processing Services for generic drugs for 2023Q4 was calculated with reference to (i) the Company’s demand (in quantity) of processing services based on the Group’s planning of generic drugs for 2023Q4 according to internal and external orders of such generic drugs for the corresponding period; and (ii) the processing costs for each of the aforementioned generic drugs for 2023Q4.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For our due diligence purpose, we obtained and reviewed all relevant demand orders of the aforementioned generic drugs for 2023Q4 from the Company, and noted that the Company's demand (in quantity) of processing services for generic drugs represented the number of the aforesaid generic drugs products as shown in the demand orders for 2023Q4.

In addition, the Company also provided us with a breakdown regarding the historical processing costs for each of the aforementioned generic drugs for the year ended 31 December 2022 and the nine months ended 30 September 2023. According to the breakdown, we noted that the processing costs for each of the aforementioned generic drugs for 2023Q4 did not deviate much from that for the year ended 31 December 2022 and the nine months ended 30 September 2023.

Anticipated transaction amount of the purchase of Processing Services for new pharmaceutical products for 2023Q4

According to the Revised Entrusted Processing Cap Calculation, the anticipated transaction amount of the purchase of Processing Services for new pharmaceutical products for 2023Q4 plus the historical transaction amount of purchase of Processing Services for new pharmaceutical products for the nine months ended 30 September 2023 equals to the original estimated amount of purchase of Processing Services for new pharmaceutical products for FY2023 (which was analysed in the Previous Circular).

Hence, we consider the Anticipated Processing Services Amount to be justifiable.

Having considered the above, we are of the view that the Revised Entrusted Processing Cap to be fair and reasonable.

Accordingly, we consider the Entrusted Processing Cap Revision to be fair and reasonable.

Shareholders should note that as the Entrusted Processing Cap Revision is relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, and they do not represent forecasts of cost to be incurred under the Entrusted Processing Framework Agreement. Consequently, we express no opinion as to how closely the actual cost to be incurred under the Entrusted Processing Framework Agreement will correspond with the Entrusted Processing Cap Revision.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 annual caps 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; and (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 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 Transactions are fair and reasonable and on normal commercial terms; and (ii) the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transactions, and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

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

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

1. RESPONSIBILITY STATEMENT

This 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 INTEREST

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

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

Name	Types of Shares	Capacity	Number of shares/ underlying shares held (shares)	Approximate percentage of relevant class of share capital (%)	Approximate percentage of total issued share capital (%)
Directors					
TANG Xinfu	H Shares	Beneficial owner	130,400 (L)	0.019%	0.015%
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

The following table is derived from the latest interest information of the substantial Shareholders disclosed on the HKEXnews website of Stock Exchange as at 30 June 2023. As they are only required to disclose the change of their interests when it reaches certain prescribed threshold, the information set out in the following table may be inconsistent with their actual interests as at the Latest Practicable Date:

Name of Shareholders	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 (%)
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)

Name of Shareholders	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 (%)
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)
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)

(L) — Long position

(S) — Short position

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

Notes:

* *Mr. TANG Xinfu is a director of Shenzhen HEC Industrial Development Co., Ltd..*

1. The shareholding information of the Shareholders 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 Co., Ltd. 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.

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. 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.

8. 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.

9. 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.

10. DOCUMENTS ON DISPLAY

A copy 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) the Energy Purchase Framework Agreement;
- (b) the APIs Purchase Agreement;
- (c) the Packaging and Production Materials Purchase Framework Agreement;
- (d) the Entrusted Processing Framework Agreement;
- (e) the supplemental agreement to the Energy Purchase Framework Agreement;
- (f) the supplemental agreement to the APIs Purchase Agreement;
- (g) the supplemental agreement to the Packaging and Production Materials Purchase Framework Agreement; and
- (h) the supplemental agreement to the Entrusted Processing Framework Agreement.



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
2023 THIRD EXTRAORDINARY GENERAL MEETING**

Reference is made to the notice of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the “**Company**”) dated 1 December 2023 (the “**Notice**”) for the 2023 third extraordinary general meeting of the Company (the “**EGM**”), which sets out the time and venue of the EGM and contains the resolutions to be considered and approved by the shareholders of the Company at the EGM (the “**Original Resolutions**”).

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the EGM 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 Wednesday, 27 December 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 EGM by Sunshine Lake Pharma Co., Ltd.* (廣東東陽光藥業股份有限公司) 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 of the Company dated 1 December 2023 for further details in relation to the Framework Agreement. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the supplemental circular of the Company dated 8 December 2023 (the “**Circular**”).

ORDINARY RESOLUTIONS

3. “**THAT:**

- (i) the revised annual cap for the Energy Purchase Framework Agreement in the amount of RMB51,340,000 for the year ending 31 December 2023 (the “**Revised Annual Cap for the Energy Purchase Framework Agreement**”), and the transactions contemplated thereunder be and are hereby approved; and
- (ii) any one Director be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to take all steps necessary and expedient to implement and/or give effect to and implement the Revised Annual Cap for the Energy Purchase Framework Agreement.”

SUPPLEMENTAL NOTICE OF 2023 THIRD EXTRAORDINARY GENERAL MEETING

4. **“THAT:**

- (i) the revised annual caps for the APIs Purchase Agreement in the amounts of RMB58,946,300, RMB73,786,800 and RMB95,442,100 for the years ending 31 December 2023, 2024 and 2025, respectively (the **“Revised Annual Caps for the APIs Purchase Agreement”**), and the transactions contemplated thereunder be and are hereby approved; and
- (ii) any one Director be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to take all steps necessary and expedient to implement and/or give effect to and implement the Revised Annual Caps for the APIs Purchase Agreement.”

5. **“THAT:**

- (i) the revised annual caps for the Packaging and Production Materials Purchase Framework Agreement in the amounts of RMB48,600,000, RMB48,600,000 and RMB48,600,000 for the years ending 31 December 2023, 2024 and 2025, respectively (the **“Revised Annual Caps for the Packaging and Production Materials Purchase Framework Agreement”**), and the transactions contemplated thereunder be and are hereby approved; and
- (ii) any one Director be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to take all steps necessary and expedient to implement and/or give effect to and implement the Revised Annual Caps for the Packaging and Production Materials Purchase Framework Agreement.”

6. **“THAT:**

- (i) the revised annual cap for the Entrusted Processing Framework Agreement in the amounts of RMB105,805,500 for the year ending 31 December 2023 (the **“Revised Annual Cap for the Entrusted Processing Framework Agreement”**), and the transactions contemplated thereunder be and are hereby approved; and
- (ii) any one Director be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to take all steps necessary and expedient to implement and/or give effect to and implement the Revised Annual Cap for the Entrusted Processing Framework Agreement.”

Yours faithfully

On behalf of the Board

YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

TANG Xinfa

Chairman

Hubei, the PRC
8 December 2023

SUPPLEMENTAL NOTICE OF 2023 THIRD EXTRAORDINARY GENERAL MEETING

Notes:

1. A supplemental form of proxy in respect of the ordinary resolutions numbered 3 to 6 mentioned above (the “**Supplemental Form of Proxy**”) is enclosed with the supplemental notice of the EGM of the Company dated 8 December 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 EGM 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 EGM. If you do not duly complete and deliver the original form of proxy for the EGM but have duly completed and delivered the Supplemental Form of Proxy and validly appointed a proxy to attend and act for you at the EGM, 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 EGM, eligibility for attending the EGM, proxy, registration procedures and other relevant matters in relation to the EGM.

As at the date of this supplemental notice, the board of directors of the Company consists of Mr. JIANG Juncai, Mr. WANG Danjin, Mr. LI Shuang and Mr. CHEN Hao as the executive directors; Mr. TANG Xinfu as a non-executive director; and Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen as the independent non-executive directors.