THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this 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 circular with the enclosed 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.

YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司

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

(Stock Code: 01558)

CONTINUING CONNECTED TRANSACTION ENTERING INTO THE DRUG R&D PIPELINE COOPERATION FRAMEWORK AGREEMENT AND NOTICE OF EGM

Independent Financial Adviser to the Independent Board Committee and Independent Shareholders

Gram Capital Limited
嘉林資本有限公司

A letter from the Board is set out on pages 4 to 30 of this circular.

A notice convening the EGM to be held at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC on Wednesday, 27 December 2023 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. The form of proxy for use at the EGM is also enclosed. The 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).

Whether or not you intend to attend the EGM, you are requested to complete the accompanying 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 form of proxy. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so desire.

1 December 2023

CONTENTS

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

"Articles of Association"	the articles of association of the Company (as amended from time to time)
"Authorisation"	the authorisation of the Board to Review the list of R&D pipeline cooperation projects under the Framework Agreement
"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
"CSO"	Contract Sales Organisation, which mainly refers to a commercial organisation that provides product sales services for pharmaceutical enterprises through contracts
"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
"Effective Date"	the date on which all conditions precedent under the Framework Agreement are fulfilled
"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 notice convening the EGM which is set out on pages EGM-1 to EGM-3 of this circular
"Framework Agreement"	the drug R&D pipeline cooperation project framework agreement entered into between the Company and Sunshine Lake Pharma dated 29 November 2023 in relation to the proposed cooperation between the Company and Sunshine Lake Pharma on the R&D and commercialization of the undergoing and future R&D pipeline cooperation projects of Sunshine Lake Pharma in the PRC

"Group"	the Company and its subsidiaries
"H Share(s)"	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) listed on the Stock Exchange and is (are) subscribed for and traded in HKD
"HEC Group"	the group formed by Shenzhen HEC and its subsidiaries
"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 the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D pipeline cooperation expenses)
"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 the Framework Agreement and the transactions thereunder (including the proposed annual caps for the R&D pipeline cooperation expenses)
"Latest Practicable Date"	29 November 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"NMPA"	National Medical Products Administration of the PRC
"PRC" or "China"	the People's Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"R&D"	Research and development
"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"	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
"small molecule generic drugs"	Drugs that are classified as "Class 3 chemical drugs — imitation of overseas listed but domestically unlisted drugs by domestic applicants (化學藥品3類：境內申請人仿製境外上市但境內未上市原研藥品的藥品)" and "Class 4 chemical drugs — Imitation of domestically listed drugs by domestic applicants (化學藥品4類：境內申請人仿製已在境內上市原研藥品的藥品)" under the relevant regulations including the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》) and the Requirements for the Registration, Classification and Application of Chemicals (《化學藥品註冊分類及申報資料要求》)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary(ies)"	have the same meaning ascribed thereto under the Listing Rules
"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.

* *For identification purpose only*

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)

Registered Office and Principal Place of Business in the PRC:
No. 38 Binjiang Road
Yidu, Yichang
Hubei Province
the PRC

Principal Place of Business in Hong Kong:
40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

1 December 2023

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION ENTERING INTO THE DRUG R&D PIPELINE COOPERATION FRAMEWORK AGREEMENT AND NOTICE OF EGM

I. INTRODUCTION

Reference is made to the announcement of the Company dated 29 November 2023 in relation to the entering into of the Framework Agreement for the proposed cooperation between the Company and Sunshine Lake Pharma on the R&D and commercialization of the undergoing and future R&D pipeline cooperation projects of Sunshine Lake Pharma in the PRC.

At present, the domestic pharmaceutical industry is undergoing rapid growth and the industrial competition is increasingly fierce. As a domestic platform for pharmaceutical preparation under the HEC Group, in order to maintain its long-term competitive advantages in the industry, the Company not only ensures the continuous business expansion of its existing products, but also needs to continuously consolidate its product pipeline and introduce new products to ensure its long-term growth potential.

As the controlling shareholder of the Company, Sunshine Lake Pharma has leading pharmaceutical R&D capabilities in the PRC, including pre-clinical R&D and clinical development of small molecule and large molecule new drugs, as well as the development of small molecule innovative preparations and biosimilars. It has outstanding innovative R&D capabilities and currently has a rich pipeline of drug candidates, thereby providing the Company with pharmaceutical products with potential market competitiveness. The Company is principally engaged in drug production, sales of drugs in the PRC and the re-development of existing drugs, yet its R&D capability for new products is limited.

In consideration of enhancing its long-term competitive advantages, the Company intends to enter into a Framework Agreement with Sunshine Lake Pharma, pursuant to which the Company will bear part of the R&D expenses, and both parties will collaborate on new drugs, innovative preparations and biological drugs (17 in total) and small molecule generic drugs (tentatively 20) by way of sharing sales with reference to the R&D investment amount of the relevant products in the domestic commercialization stage. The cooperation is conducive to accelerating the R&D progress of relevant products, increasing diversity of the Company's commercialized products, and enhancing the Company's long-term growth potential and comprehensive competitiveness.

The purpose of this circular is to provide you with further information in relation to the Framework Agreement including, *inter alia*, (i) further details of the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D pipeline cooperation expenses); (ii) the recommendation of the Independent Board Committee to the independent Shareholders in relation to the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D pipeline cooperation expenses); (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the independent Shareholders in relation to the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D pipeline cooperation expenses); and (iv) a notice of the EGM.

II. THE FRAMEWORK AGREEMENT

The principal terms of the Framework Agreement are as follows:

Date:	29 November 2023
Parties:	the Company; and Sunshine Lake Pharma
Term:	36 months from the Effective Date of the Framework Agreement Both parties have agreed that the Framework Agreement may be renewed by mutual agreement and subject to the fulfilment of all internal and external review procedures to be performed by both parties after negotiation. Under the Framework Agreement, only the Company has the right to early terminate the Framework Agreement at any time by giving written notice to Sunshine Lake Pharma and shall not be liable to pay compensation to Sunshine Lake Pharma for such early termination.
Nature of transactions:	The Company and Sunshine Lake Pharma agreed to cooperate in a series of drug R&D projects to jointly carry out the R&D of (i) 17 innovative drugs and (ii) small molecule generic drug ("**small molecule generic drug**") pipeline projects (tentatively 20 drugs) (the "**R&D pipeline cooperation projects**") in China. Sunshine Lake Pharma will formulate the R&D plan and be solely responsible for the R&D of the R&D pipeline cooperation projects. The Company will provide financial support solely for the clinical stage R&D expenses incurred by Sunshine Lake Pharma in the R&D pipeline cooperation projects (the "**R&D pipeline cooperation expenses**").

Upon the Effective Date of the Framework Agreement, the Company has right to request Sunshine Lake Pharma to review and update the list of R&D pipeline cooperation projects within one month after the end of each financial year. If an update to such list is agreed by both parties, both parties shall sign a written confirmation and such updated list shall take effect on the signing date of the written confirmation (the "**Review of list of R&D pipeline cooperation projects**").

In addition, the Company is exclusively responsible for the commercialization of the products corresponding to the R&D pipeline cooperation projects in China, and the revenue generated from the sales of such products in China will be shared with Sunshine Lake Pharma through sales sharing.

Investment of R&D pipeline cooperation expenses:

Both parties agreed that the Company will provide maximum investment amount of R&D pipeline cooperation expenses for (i) innovative drugs of RMB150,000,000, RMB400,000,000, RMB400,000,000 and RMB250,000,000; and (ii) small molecule generic drugs of RMB25,000,000,RMB40,000,000, RMB40,000,000 and RMB10,000,000, for each of the period from the Effective Date to 31 December 2023, the two years ending 31 December 2024 and 2025, and the period from 1 January 2026 to the expiry date of the term of the Framework Agreement.

Payment method of R&D pipeline cooperation expenses:

When Sunshine Lake Pharma is required to pay the R&D pipeline cooperation expenses:

(a) The Company shall reimburse the full amount to Sunshine Lake Pharma in a timely manner according to the invoices, third-party payment notices or agreements provided by Sunshine Lake Pharma (generally no more than 5 working days from the date of receipt of the notice from Sunshine Lake Pharma), and the payment shall then be made by Sunshine Lake Pharma to external parties; or

(b) the Company shall directly pay the R&D pipeline cooperation expenses to external parties according to the documents such as third-party invoices, payment notices or agreements provided by Sunshine Lake Pharma, and according to the request by Sunshine Lake Pharma. Both parties shall conduct reconciliation in writing or by email at the end of each month.

In case of special circumstances, where the relevant expenses shall be paid in advance by Sunshine Lake Pharma. After Sunshine Lake Pharma provides the Company with the relevant bank payment slip, third-party payment notice, clinical trial agreement and other relevant documents, the Company shall pay the relevant amount in full to Sunshine Lake Pharma no later than three working days after Sunshine Lake Pharma provides the relevant documents.

In the event if there is any failure to obtain drug registration certificate of the R&D pipeline cooperation projects issued by the NMPA, both parties agreed (i) for innovative drugs projects, the Company has the right to request to transfer the R&D pipeline cooperation expense invested by the Company to the failed project ("**Invested monies in failed project**") to other agreed innovative drugs project(s) in its sole discretion as to increase the sharing ratio of the Company (i.e. (a) the Invested monies in failed projects will be calculated in the sharing ratio of other innovative drug projects; and (b) the sharing ratio of innovative drug projects shall not exceed its sale revenue. If there is any excess, the excess portion will not be included in the calculation and the Company has the right to decide to include the excess portion in other innovative drug projects; and (ii) for small molecule generic drugs projects, the Company has the right to determine and transfer such invested monies to other small molecule generic drugs projects, which has not been invested by the Company previously and entitle to sales sharing of the revenue as agreed by both parties.

Sales Sharing:

The Company and Sunshine Lake Pharma will separately enter into sales sharing agreement for sales sharing of the revenue, which is generated from the sales of such products in the PRC. The sharing ratio is determined with reference to the following principles:

For 17 innovative drugs

The Company's basic sharing ratio (the "**Basic Sharing Ratio**") for the commercialization shall be determined with reference to the market sales expense ratio of the pharmaceutical market-oriented CSO and the Company's past sales sharing ratio for similar drugs will be taken into account to determine the Basic Sharing Ratio: Basic Sharing Ratio plus and the ratio for the Company's R&D pipeline cooperation expenses invested in such R&D pipeline cooperation projects to the total R&D pipeline cooperation expenses of such R&D pipeline cooperation projects. In respect of the adjustment ratio, the ratio of adjustment is based on the ratio of R&D pipeline cooperation expenses invested by the Company, and such adjustment will enlarge the sales sharing ratio; and

- The sales sharing ratio is calculated with reference to the following formula:

  The Company's sales sharing ratio = Basic Sharing Ratio + Basic Sharing Ratio x the ratio of the Company's R&D pipeline cooperation expenses invested in such R&D cooperative projects to the total R&D expenses of such cooperative projects.

In order to ensure the compliance of the prevailing industry practice of the Basic Share Ratio, the Company will adopt the following measures, including but not limited to (i) discussing with at least two pharmaceutical manufacturing companies, which are independent third parties engaging in manufacturing and sales of drugs similar to target products, in relation to sales sharing model; (ii) searching through publicly available information sources (i.e. the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, etc.) to seek for any public information related to similar sales sharing model; or (iii) if the Company is unable to obtain information from aforesaid (i) and (ii), engaging specialist advisors for opinions in relation to the fairness and reasonableness of the sales sharing model.

Both parties will enter into independent agreement to regulate other general terms and conditions related to the transactions of innovative drugs sales sharing arrangement. Detailed terms related to the innovative drugs sales sharing arrangement and the consideration involved will be included in the independent agreement to be entered by both parties. After finalizing the terms of innovative drugs sales sharing arrangement, if such arrangement constitutes notifiable transactions and/or non-exempt connected transactions, the Company will comply with the applicable requirements of Chapter 14 and/or Chapter 14A of the Listing Rules.

For small molecule generic drugs pipeline projects

- For the centralised procurement of drugs by medical institutions under the small molecule generic drug pipeline projects, Sunshine Lake Pharma has the right to participate in the centralised procurement of the corresponding drugs for such projects on its behalf, and pay the Company 10% of the sales revenue generated by Sunshine Lake Pharma's centralised procurement business as sales sharing on an annual basis. As Sunshine Lake Pharma will be responsible for the sales and centralised procurement, the distribution cost is not expected to be significant. As such, the Board is of the view that such sales sharing ratio is no less favourable than those offered by independent third party with reference to an authorisation of payment between the Company and an independent third party.

In determining the above sales sharing ratios, the Company primarily makes reference to payment authorizations between the Company and independent third parties (the "**revenues sharing arrangements with third parties**"). In view of the fact that under the revenues sharing arrangement with third parties, the Company is only responsible for the sales of the product in China but not for the R&D of the relevant products, and that the aforesaid arrangement is similar to the arrangement between the Company and Sunshine Lake Pharma in respect of the responsibilities under the small molecule generic drug pipeline projects (i.e. Sunshine Lake Pharma is responsible for the sales; and the Company bears the major R&D costs), the Company therefore considers that the sharing arrangement under the small molecule generic drug pipeline projects and the revenues sharing arrangement with third parties are comparable. The sharing ratio of the sharing arrangement for small molecule generic drug pipeline projects is no less favourable than those provided by the independent third parties.

- The Company will be exclusively responsible for the commercialization of the small molecule generic drug pipeline projects in the non-centralised procurement market. 70% of the revenue generated from such projects each year shall be attributed to the Company and the remaining 30% to Sunshine Lake Pharma. In order to ensure the compliance of the prevailing industry practice of the Basic Sharing Ratio, the Company will adopt the following measures, including but not limited to "70% of the revenue", which is determined with reference to (i) the sales undertaken by the Company; (ii) the ratio of historical distribution costs to the revenue of the Company; and (iii) the remaining ratio to be shared by both parties. In addition, distribution costs will be the main cost of commercialization of drugs in non-centralized markets, which is expected to account for 40% of sales revenue. As the Company will be responsible for the sales, with reference to the proportion of the distribution cost to the revenue of the Company in the past, the Board is of the view that the remaining portion shall be shared by both parties.

In determining the above revenues sharing ratio, as the Company will be responsible for sales, the Company expects that the distribution costs as a percentage of revenue is 40%, which is with reference to the proportion of distribution costs to the Company's revenue in the past. In view of the fact that the amount of incurred R&D costs for the small molecule generic drug pipeline projects currently expected to be carried out up to 31 December 2022, which have already been borne by Sunshine Lake Pharma, and the amount of R&D costs for such products (assuming that all of which are to be borne by the Company) from 1 January 2023 up to their market launch are basically the same, and therefore, the Board is of the view that the remainder of the remaining portion (i.e. 60% of the sales revenue) should be shared equally between the two parties.

Both parties will enter into independent agreement to regulate the aforesaid sales sharing ratio for commercialisation of small molecule generic drugs under the Framework Agreement and other general terms and conditions related to the transactions of small molecule generic drugs sales sharing arrangement. Detailed terms related to the small molecule generic drugs sales sharing arrangement and the consideration involved will be included in the independent agreement to be entered by both parties. The Company will further access the relevant sales sharing ratio prior to the commencement of commercialisation and to ensure it will comply with the sales sharing ratio for commercialisation of small molecule generic drugs under this Framework Agreement. After finalizing the terms of small molecule generic drugs sales sharing arrangement, if such arrangement constitutes notifiable transactions and/or non-exempt connected transactions, the Company will comply with the applicable requirements of Chapter 14 and/or Chapter 14A of the Listing Rules.

Under the cooperation model between the Company and Sunshine Lake Pharma, the Company is exclusively responsible for the commercialization of counterpart products in China for some of the joint pipeline projects, while Sunshine Lake Pharma is responsible for another part.

Both parties agreed, if the Framework Agreement is terminated by the expiry of the term or in accordance with its terms, regardless of whether or not the relevant pipeline has obtained the approval for registration of drug within the term of the Framework Agreement, the commercialization of each pipeline project and the sales sharing arrangement which have actually commenced under the Framework Agreement shall continue to be executed in accordance with the relevant provisions of the Framework Agreement during the validity period of the intellectual property rights and approvals in respect of the relevant pipeline as required by law.

Under the circumstance where the product is commercialized exclusively by the Company (i.e. the Company is responsible for the commercialization of innovative drugs in China and the commercialization of small molecule generic drug pipeline projects in the non-centralised procurement market), the Company sells the relevant products to distributors, and the Company is responsible for the after-sale and quality obligations of the products, and bears the risk of inventory before delivery of the products. As the primary responsible party, the Company's revenue is recognized on the basis of the total consideration received or receivable, which is in compliance with the requirements of relevant accounting standards. Meanwhile, the sales sharing payable to Sunshine Lake Pharma is classified as contractual performance costs and is included in the operating costs of drugs in accordance with the accruals, which is in compliance with the requirements of relevant accounting standards.

Under the circumstance where the product is commercialized exclusively by Sunshine Lake Pharma on an exclusive basis (i.e. Sunshine Lake Pharma is responsible for the centralised procurement of drugs by medical institutions under the small molecule generic drug projects), the Company, as an agent, recognizes revenue in accordance with the sales sharing receivable from Sunshine Lake Pharma, which is in compliance with the requirements of relevant accounting standards.

The Company's accounting treatment for its sales sharing is consistent with that of listed companies in the pharmaceutical manufacturing industry, as follows:

Name of company	**Accounting treatment**
Warrant Pharmaceutical (華納藥廠) (688799.SH)	Sales revenue from the Company's collaborative products upon realization of sales is recognized by using the gross-up method, and revenue apportioned to other collaborating parties represents the performance costs incurred in realizing sales revenue from the products, which are accounted for in operating costs
Garden Biopharma (花園生物) (300401.SZ)	The Company has control over the drugs before transferring it to its customer, the Company is the primary responsible party and should recognize revenue based on the total consideration received or receivable, while the share of proceeds paid to the unit is a contractual cost of performance and is included in the cost of sales of the drugs
BeiGene (百濟神州) (688235.SH)	The Company and the collaborating parties will distribute the collaborating parties' profits from the collaboration in the PRC on a 50:50 basis. The Company is the primary responsible party for the sales to the master distributor and therefore revenue should be recognized on a full-rate basis, with the portion of profit distribution to be adjusted for the cost of the main business

The relevant accountant of the Company confirmed that they do not have any adverse opinion of the above accounting treatment for sales sharing.

Intellectual property rights:

In addition to the drug registration approval, other intangible assets related to production technologies, procedures, formulas, skills and related technical information, achievements, patents and other intangible assets related to products or compounds obtained from or licenced from third parties under each R&D pipeline cooperation projects under the Framework Agreement are solely owned by Sunshine Lake Pharma.

As related drug R&D corporation projects are actually an access to clinical or post-clinical pipeline, the Company has not participated in the pre-clinical stage such as finding of the abovementioned pipeline compounds and pilot tests. All of the costs in relation to such pipeline pre-clinical stage are self-invested by Sunshine Lake Pharma and therefore Sunshine Lake Pharma exclusively enjoys other production technology, process, formulation, production crafts in relation to products or compounds and related technology information, results and patent-related intellectual property rights, which are reasonable. Meanwhile, as stated above, the Company is not required to pay any further cost to Sunshine Lake Pharma in relation to commercialized products.

In respect of the drug registration approval, when any R&D pipeline cooperation projects under the Framework Agreement meets the requirements for application for the drug registration certificate from the NMPA and its subordinate units, the Company has the right to choose to apply for the drug registration certificate directly by using the name of the Company as applicant.

In respect of the drug registration certificate registered as the marketing authorization holder of the drug registration certificate by Sunshine Lake Pharma, during the validity period of such drug registration certificate, if the relevant regulatory requirements allow Sunshine Lake Pharma to change the marketing authorization holder of such drug registration certificate to the Company or its subsidiary, the Company shall have the right to request Sunshine Lake Pharma to change the marketing authorization holder of such drug registration certificate to the Company or its subsidiary by written notice.

The abovementioned terms allow the Company to choose whether to hold the relevant certificate of registration for drugs at different points in time, which in effect gives the Company a higher degree of flexibility at the commercialization option level. The Company has effectively protected its commercial interests by choosing to hold the registration approvals for drugs, which is a fair and reasonable way of distributing the benefits as allowing Sunshine Lake Pharma to hold the relevant intellectual property rights.

Both parties agreed the Company is exclusively responsible for the commercialization of counterpart products in China for some of the cooperation pipeline projects and the Company and Sunshine Lake Pharma conduct sales sharing. The costs deducted from the sharing do not relate to the costs of use of intellectual property rights and the Company is not required to pay any further cost to Sunshine Lake Pharma in relation to commercialized products including to use of intellectual property rights at any time during the validity period of the certificate of registration of such drugs. Therefore, the Board is of the view that the abovementioned intellectual property rights arrangements do not affect the drug commercialization scheme under the Framework Agreement and such intellectual property rights arrangements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Both parties will enter into an independent agreement to regulate any intellectual property rights that may be generated by the Framework Agreement, which includes (among others) the ownership, use and commercialization of the intellectual property rights, any applicable licensing arrangements and/or other usual terms and conditions related to the transactions contemplated therein. Detailed terms of, among other things, the transfer, import licensing or external licensing arrangements of the intellectual property rights and the consideration involved will be included in separate agreements to be entered into between the parties.

The Board is of the view that the transfer of intellectual property rights is costly and not on economic benefit to the Company, while Sunshine Lake Pharma will allow the Company to use the intellectual property rights free-of-charge and at any time during the validity period of the certificate of registration is of the benefit of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, no agreement has been reached in respect of the intellectual property rights which may arise under the Framework Agreement. Upon the implementation of the terms of the agreements related to the intellectual property rights arising from each R&D corporation project (if any) under the Framework Agreement, the Company will comply with the applicable requirements under Chapter 14 and/or Chapter 14A of the Listing Rules if such arrangements constitute a notifiable transaction and/or a non-exempt connected transaction.

Further, Sunshine Lake Pharma shall not transfer, licence or otherwise dispose of all or any part of the intangible assets corresponding to the relevant pipelines in respect of which the research and development costs have been paid by the Company in accordance with the agreements under the Framework Agreement to any other third party prior to obtaining written consent from the Company.

Conditions precedent: The Framework Agreement shall become effective upon the fulfillment of the following conditions precedent:

1. Both parties having passed the necessary internal approval procedures and duly executed the Framework Agreement; and

2. The Company has performed the necessary procedures in accordance with the relevant laws, regulations, rules, articles of association and internal compliance procedures, including but not limited to:

   (i) obtaining the Board's approval for the Framework Agreement and the transactions thereunder (including the Authorisation and the proposed annual caps for the R&D pipeline cooperation expenses channels);

   (ii) obtaining of the independent Shareholders' approval of the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D pipeline cooperation expenses); and

   (iii) compliance with the relevant requirements under the Listing Rules or the Stock Exchange.

List of R&D pipeline cooperation projects:

List of 17 innovative drugs items

Drug Name	Application	Status of Research and Development
Item A	Hepatitis C	Pre-NDA
Item B	Esophageal Cancer	Clinical Trial Stage III
Item C	Acute Myeloid Leukemia	Clinical Trial Stage III
Item D	Depression	Clinical Trial Stage II/III
Item E	Idiopathic Pulmonary Fibrosis	Clinical Trial Stage II
Item F	Pulmonary Hypertension	Clinical Trial Stage II
Item G	Chemotherapy-related Anemia	Clinical Trial Stage II
Item H	Nonalcoholic steatohepatitis	Clinical Trial Stage II
Item I	Gout	Clinical Trial Stage I
Item J	Migraine	Clinical Trial Stage I
Item K	Solid Carcinoma	Clinical Trial Stage I
Item L	Diabetes	Clinical Trial Stage III
Item M	Diabetes	Clinical Trial Stage I/III
Item N	Diabetes	Clinical Trial Stage II
Item O	Gastroesophageal Reflux	Clinical Trial Stage I
Item P	Alzheimer's disease	Clinical Trial Stage I
Item Q	COPD, Asthma	Clinical Trial Approved

List of 20 small molecule generic drugs items

Drug Name	Application	Status of Research and Development	Way of commercialisation
Item 1	Overactive Bladder	Submitted CDE supplementary reply	centralised procurement and non-centralised procurement markets
Item 2	HBV、HIV	Pending approval	centralised procurement and non-centralised procurement markets
Item 3	Alzheimer's disease	Submitted CDE supplementary reply	centralised procurement and non-centralised procurement markets
Item 4	Treatment of mild to moderate dehydration caused by diarrhea	Pending submission of application	centralised procurement and non-centralised procurement markets
Item 5	Epilepsy	Pending submission of application	centralised procurement and non-centralised procurement markets
Item 6	muscular relaxants	Pending submission of application	centralised procurement and non-centralised procurement markets
Item 7	Type 2 Diabetes	BE Trial completed, submitted application	centralised procurement and non-centralised procurement markets

Drug Name	Application	Status of Research and Development	Way of commercialisation
Item 8	Gastroesophageal reflux disease	Registered batch production completed	centralised procurement and non-centralised procurement markets
Item 9	Non-Metastatic Castration Resistant Prostate Cancer	Formula development	centralised procurement and non-centralised procurement markets
Item 10	Hyperphosphatemia chronic kidney disease	Formula development	centralised procurement and non-centralised procurement markets
Item 11	Treatment of influenza A and B for age 12 and above	Formula development; first batch of pilot scale-up production completed	centralised procurement and non-centralised procurement markets
Item 12	Influenza Prevention for 5 years old and above	Pending procurement of reference formulations	centralised procurement and non-centralised procurement markets
Item 13	Heart Failure	Pending API development	centralised procurement and non-centralised procurement markets
Item 14	COVID treatment	Formula development	centralised procurement and non-centralised procurement markets
Item 15	Type 2 Diabetes	Formula development	centralised procurement and non-centralised procurement markets
Item 16	Adjunctive treatment for major depression in adults; Schizophrenia in patients 13 years and above	Formula development	centralised procurement and non-centralised procurement markets
Item 17	chronic kidney disease related to Type 2 Diabetes	Pending API development	centralised procurement and non-centralised procurement markets
Item 18	Neuropathic Pain	Formula development	centralised procurement and non-centralised procurement markets
Item 19	Rheumatoid Arthritis	Formula development	centralised procurement and non-centralised procurement markets
Item 20	Gout, Hyperuricemia	Pending API development	centralised procurement and non-centralised procurement markets

Pricing Policy

The proposed annual caps for the R&D pipeline cooperation expenses under the Framework Agreement are determined after negotiation at arm's length based on the actual R&D pipeline cooperation expenses for the R&D pipeline cooperation projects incurred by the Company and Sunshine Lake Pharma.

Historical Amount

The Company and Sunshine Lake Pharma had not conducted any transaction under the Framework Agreement in the past.

Proposed Annual Caps and Basis of Determination for the R&D Pipeline Cooperation Expenses

The Company estimates that the proposed annual caps for the R&D pipeline cooperation expenses of innovative drugs for each of the period from the Effective Date to 31 December 2023, the two years ending 31 December 2024 and 2025, and the period from 1 January 2026 to the expiry date of the term of the Framework Agreement are RMB150,000,000, RMB400,000,000, RMB400,000,000 and RMB250,000,000, respectively. The Company has determined the annual caps on the R&D pipeline cooperation expenses with reference to (i) the sums of the estimated annual R&D pipeline cooperation expenses of 17 innovative product items are expected to be RMB395,000,000, RMB450,000,000, RMB617,000,000 and RMB620,000,000, respectively for the four years ending 31 December 2026; and (ii) pursuant to the average R&D pipeline cooperation expenses of innovative product items (i.e. RMB23,500,000 each year) and the estimated number of 17 innovative product items.

The proposed annual caps for the R&D pipeline cooperation expenses of small molecule generic drug pipeline project for each of the period from the Effective Date to 31 December 2023, the two years ending 31 December 2024 and 2025, and the period from 1 January 2026 to the expiry date of the term of the Framework Agreement are RMB25,000,000, RMB40,000,000, RMB40,000,000 and RMB10,000,000, respectively. In considering the proposed annual caps, the Company has determined the annual caps on the R&D pipeline cooperation expenses of each small molecule generic drug items with reference to (i) the sums of the R&D pipeline cooperation expenses of small molecule generic drug items (expected to be 20 items) are expected to be RMB24,900,000, RMB36,400,000, RMB39,900,000 and RMB9,270,000, respectively for the four years ending 31 December 2026; (ii) pursuant to the average R&D pipeline cooperation expenses of each generic drug item (i.e. RMB2,000,000 each year) and the estimated 20 small molecule generic drug items.

III. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

In order to actively respond to the "Healthy China 2030" strategy to build a long-term, stable and positive cooperative relationship and leverage to the advantages of both parties, so as to accelerate the R&D progress for Sunshine Lake Pharma and provide high-quality pharmaceutical products for the Company, as well as to rapidly implement the development strategy of both parties, they will carry out in-depth cooperation on the existing high-quality R&D pipeline cooperation projects of Sunshine Lake Pharma based on the principle of "strengthening cooperation, complementary advantages, common development, and win-win with mutual benefit".

The Group is a pharmaceutical enterprise integrating R&D, production and sales of pharmaceutical products. In recent years, China's innovative drug industry has been highly valued by the government and supported by national industrial policies, and the innovative drug industry has a high rate of return with both economic and social benefits. The Group's development policy is to continue to increase R&D investment, accelerate the transformation of drug R&D to clinical application in the fields of anti-infective, endocrine and metabolic

diseases, and continuously improve product R&D and innovation capabilities. The pharmaceutical R&D pipeline cooperation projects contemplated under the Framework Agreement will effectively enhance the Company's product capabilities, enrich the existing product portfolio, enhance the market competitiveness and core advantages of the Group's products, and facilitate the overall strategic layout of the Group's business development.

The Company is principally engaged in drug production, sales of drugs in the PRC and the re-development of existing drugs. Sunshine Lake Pharma is principally engaged in drug development, production and sales outside the PRC. In terms of R&D, the Company can only carry out the re-development of existing drugs, while Sunshine Lake Pharma has full-cycle drug development capabilities covering all aspects, including pre-clinical R&D and clinical development of small molecule and large molecule new drugs, as well as the development of small molecule generic drugs and biosimilars.

In terms of the R&D strength of Sunshine Lake Pharma, it has built a full-cycle drug development platform with full coverage, and has more than 1,200 R&D personnel. It has established a technical team consisting of scientists with extensive working experience in multinational pharmaceutical companies and young backbone talents with rich practical R&D experience, and has formed a large-scale, professional and comprehensive R&D team. Sunshine Lake Pharma established a research institute in 2005 to establish an independent R&D platform from early drug discovery to late-stage clinical development. All aspects can be closely connected, operated efficiently and equipped with the capability of continuous independent innovation.

For the discovery and development of small molecule drugs, Sunshine Lake Pharma has always adhered to independent original research and innovation, and has excellent early development capabilities. It has built a variety of technology platforms such as biological target verification, compound design optimisation, computational chemistry and AI, small nucleic acid sequence design and drug R&D, in-vivo and in-vitro evaluation models, crystalline screening and crystallisation optimisation, CMC research, solubilization technology for insoluble drugs, drug-device combination inhalation preparation technology, pharmacokinetics evaluation, and toxicology evaluation.

For the development of macromolecular drugs, Sunshine Lake Pharma has built a complete R&D platform for recombinant protein, antibody, cell and gene therapy products, covering a variety of technology platforms such as target discovery and verification, fully human antibody library technology, phage and yeast display technology, antibody engineering, long-acting, dual (multi) anti-technology, CAR structure design technology, non-viral vector technology, macromolecular oral submission technology, macromolecular development, etc. In the field of biosimilar drugs, the Group has a full range of layout for diabetes biologics, and is one of the few enterprises in the world that can fully independently develop and commercialise a full range of insulin products and GLP-1 analogues. In the field of bio-innovative drugs, the Group focuses on two major fields, i.e. metabolism and oncology. In particular, the metabolism field aims at multi-target collaboration and improving patient compliance. A number of pipeline drugs have gradually entered clinical stage, such as the world's first GLP-1/FGF21

dual-target project that has entered clinical stage. In the field of oncology, the Company developed diversified products including dual (multi) anti-CART technology and oncolytic virus, focusing on innovative, differentiated and effective combination therapy.

In terms of clinical research, Sunshine Lake Pharma has built a clinical development team with excellent design capability and efficient execution. There are medical, project management, supervision, data statistics, clinical pharmacology, drug safety, QA and other functional departments to ensure the rapid advancement of clinical trials. It covers nearly 300 clinical trial institutions and over 700 professional departments of medical institutions in China, with an average of over 3,800 subjects administered on a monthly basis. At the same time, the Group is also gradually building a clinical pharmacology platform to effectively predict effective Phase III clinical dosage based on early clinical data modelling and simplify the drug development process.

The technology and R&D capabilities of Sunshine Lake Pharma have been recognised by national, provincial and ministerial government departments, scientific research institutions and other units. It is a national high-tech enterprise, a national intellectual property demonstration enterprise, and a national-level technology centre for internationalisation and industrialization of preparations. It was approved to establish a national key laboratory for the R&D of anti-infective new drugs through reorganisation in 2023. In 2022, it was awarded the "Golden Horse Award for the Most Innovative Enterprise with R&D Strength" (最具研發實力創新Big Pharma企業金馬獎) and was successively awarded the "Top 100 Pharmaceutical Enterprises in China"(中國醫藥工業百強企業) and the "Best Industrial Enterprise with Pharmaceutical R&D Product Line in China" (中國醫藥研發產品線最佳工業企業). It has been successively awarded the "China Pharmaceutical R&D Strength Ranking TOP30" (中國藥品研發實力排行榜TOP30) and the "China Chemical R&D Strength Ranking TOP30"(中國化藥研發實力排行榜TOP30). The Group actively builds a globally innovative patent protection system. As of 30 June 2023, Sunshine Lake Pharma and its subsidiaries have obtained a total of 1,963 patents (including patents under application), including 1,055 domestic patents and 908 overseas patents. Sunshine Lake Pharma has undertaken a total of 25 major national science and technology projects "Major New Drug Development" (重大新藥創製) projects/sub-projects/tasks, and 10 provincial and municipal projects such as provincial-level key areas R&D plans, innovation teams, and science and technology projects.

As mentioned above in relation to the R&D capabilities of Sunshine Lake Pharma, the Company currently does not possess the full-cycle drug development capabilities similar to that of Sunshine Lake Pharma. The Company's core competitiveness lies in its strong domestic product commercialization capabilities. In the fast-changing domestic pharmaceutical market, it is the best cooperation model to cooperate with Sunshine Lake Pharma in R&D and participate in commercialization sharing. R&D pipeline cooperation projects is conducive to accelerating the R&D progress of relevant products, so as to provide more high-quality pharmaceutical products for the Company's domestic commercialization in the future, and achieve complementary advantages, win-win and mutual benefit.

The 17 R&D pipeline cooperation projects developed by the Company and Sunshine Lake Pharma are mainly focused on the fields of anti-infection, anti-tumour and endocrine and metabolic diseases, which is conducive to accelerating the Company's construction of a more diversified pipeline layout. The key R&D pipeline cooperation projects are as follows:

(1) The indication of hepatitis C virus. It is a Class 1 innovative drug with independent intellectual property rights owned by Sunshine Lake Pharma. It is a new and pan-genotypic NS5A inhibitor targeting HCV, which inhibits the assembly and replication of HCV. The combination of Antaitasvir and Yiqibuvir is the Company's self-developed NS5A + NS5B combination therapy for HCV 12-week standard. It can treat the first-line or interferon-administered gene-1, 2, 3 and 6 chronic hepatitis C virus (HCV) infection in adults, covering all major genotypes in China. It is the first fully self-developed all-oral regimen for HCV pan-genotypes in China, with a clinical cure rate (SVR12) of up to 95%. It has the advantages of high cure rate, high safety and low resistance, and has obtained the special support for the creation of Major New Drug Development under the National 13th Five-Year Major Science and Technology Project (國家「十三五」科技重大專項).

    The number of HCV infected patients in China was approximately 9,000,000 in 2022, and the total number is expected to be approximately 7,900,000 in 2026 and approximately 7,000,000 in 2030. The HCV antiviral drug market was approximately RMB2,900,000,000, RMB2,500,000,000 and RMB2,400,000,000 in 2018, 2019 and 2020, respectively.

(2) The indication of esophageal cancer. It is a small molecule class 1 new drug independently developed by Sunshine Lake Pharma, and a selective epidermal growth factor receptor (EGFR) kinase inhibitor. It has obtained the support of the National Major Science and Technology Project of "Major New Drug Development" (「重大新藥創製」). As the product pipeline of small molecule targeted therapy drugs under research in esophageal squamous cell carcinoma in China with the fastest progress, it is also the only product that has entered Phase III clinical trial. Larotinib is undergoing phase III registration clinical trial in multiple centres across the country, and is the first domestic self-developed and key clinical oral small molecule targeted drug for esophageal cancer. The results of early-stage clinical studies have demonstrated positive anti-tumour efficacy for esophageal cancer.

    The market size of esophageal cancer drugs in China reached RMB3,800,000,000 in 2022, representing a CAGR of 9.2% from 2018 to 2022, and is expected to continue to grow to reach RMB10,300,000,000 in 2026 and RMB21,200,000,000 in 2030.

(3) The indication of acute myeloid leukaemia (AML). It is a small molecule class 1 new drug independently developed by Sunshine Lake Pharma. It is a highly selective oral FLT3 inhibitor and has been supported by the National Major Science and Technology Project of "Major New Drug Development". Clifutinib mainly targets relapsed and refractory acute myeloid leukemia (AML) with FLT-3 ITD mutations, and its indications under development have been extended to the first-to-treatment adult AML, greatly expanding the indication population. Among the same target

competitors, only Gilteritinib was launched in China in January 2021, but was not included in medical insurance, which is expensive for treatment and difficult for ordinary patients. As a second-generation, highly selective FLT3 inhibitor, the first and only domestic product with FLT3 high selectivity that has entered Phase III of an innovative FLT3 inhibitor drug candidate in China for the treatment of AML. Clifutinib is expected that the imported drug will be replaced with higher cost-performance ratio, with a broad market prospect.

The market size of AML drugs in China reached RMB300,000,000 in 2022, representing a CAGR of 53.4% from 2018 to 2022, and it is expected that market size will continue to grow, reaching RMB1,800,000,000 in 2026 and RMB4,500,000,000 in 2030.

(4) The indication of depression. It is a small molecule class 1 new drug independently developed by Sunshine Lake Pharma. It is a new anti-depression drug with a new multi-target mechanism of action. It also has 5-HT transporter (SERT) inhibition and 5-hydroxytide (5-HT1A and 5-HT1B) receptor agonist. The drug is a partial agonist with the fastest 5-HT reuptake inhibition/5-HT1A/5-HT1B in China, and is currently in phase II/III clinical trial. In 2019, the Group obtained the clinical trial approval for Mitizodone and completed the phase I clinical trial, showing good pharmacokinetic properties and safety in healthy subjects. In 2021, the Group communicated with the CDE to directly carry out phase II/III clinical trial, which was approved by the CDE. The Group has completed the enrollment of the national multi-centre phase II clinical trial (a total of 403 subjects were included in the group), initially demonstrating excellent anti-depression efficacy, and has the potential to quickly cure and improve anxiety.

In 2022, the market size of anti-depression drugs in China reached approximately RMB9,500,000,000, representing a CAGR of 2.3% from 2018 to 2022. It is expected that the market size will continue to grow, reaching approximately RMB18,500,000,000 in 2026 and approximately RMB35,400,000,000 in 2030.

(5) The indications of diabetes. Sunshine Lake Pharma's Insulin Degludec and Insulin Degludec Aspart are biosimilars of Class 3.3, all of which have progressed to clinical stage III. It is the only domestic manufacturer in China that simultaneously owns the clinical research pipeline of Insulin Degludec and Insulin Degludec Aspart and has entered clinical stage III. It is the first echelon of domestic manufacturers.

In 2022, the size of China's diabetes drug market reached approximately RMB66,400,000,000, representing a CAGR of 3.7% from 2018 to 2022. It is expected that this market size will continue to grow, reaching approximately RMB98,600,000,000 in 2026 and approximately RMB131,000,000,000 in 2030. In 2022, the global diabetes drug market reached US$85,700,000,000. The global diabetes drug market is expected to grow to US$103,100,000,000 in 2026 and US$118,900,000,000 in 2030.

In conclusion, the pipeline of the R&D cooperation will continuously enhance the Company's product R&D and innovation capabilities, which is in the interests of the Company and its shareholders as a whole.

The Company hereby confirms that, with the optimisation of the new drug policy environment and the gradual improvement of the national intellectual property infrastructure, innovation activities have begun to flourish, and the R&D of new drugs in China is booming, thus accelerating the development of the new drug industry in China. Benefiting from favourable policies and rapid development of the industry, the number and variety of new drugs approved in China have increased significantly. According to the National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2022) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2022)》), which was promulgated by the National Healthcare Security Administration (國家醫療保障局) and the Ministry of Human Resources and Social Security (人力資源和社會保障部) and came into effect on 1 March 2023, 111 new drugs were added to the New version of National Medical Reimbursement Drug List.

With the normalisation of medical insurance catalogue adjustment and the institutionalisation of national new drug negotiations, the size of China's new drug market will expand steadily. The R&D of new drugs is of great significance to China as an innovative country. The invention of drugs with independent intellectual property rights not only has better treatment effect for major diseases, but also reduces the dependence on foreign new drugs. Therefore, the new pharmaceutical industry has a higher rate of return and economic and social benefits. It is expected that the demand for effective drugs from domestic pharmaceutical companies will surge due to the rising income level of domestic citizens and the rising expectations of drug quality and efficacy. Therefore, pharmaceutical companies with strong commercialization capabilities, reasonable research pipelines, compatible R&D capabilities and capital levels, outstanding clinical trial results and strong drug innovation capabilities will have better development potential and investment value.

The Company does not have full-cycle drug development capabilities with full coverage, and it is the best cooperation model to cooperate with Sunshine Lake Pharma in R&D and participate in commercialization. R&D pipeline cooperation projects is conducive to accelerating the R&D progress of Sunshine Lake Pharma, providing high-quality pharmaceutical products for the Company, promoting the rapid implementation of the development strategy of both parties, and achieving complementary advantages and win-win benefits. Therefore, the Company will continue to increase investment in R&D and accelerate the transformation of drug R&D into clinical application in the therapeutic areas of anti-infective, endocrine and metabolic diseases. In addition, the Company will continue to strengthen product R&D and innovation capabilities, continuously launch new products, enrich the existing product portfolio and enhance the market competitiveness of products.

The Board (including all independent non-executive Directors after taking into account the recommendation from the Independent Financial Adviser) considers that the terms of the Framework Agreement and the transactions contemplated thereunder and the Authorisation are on normal commercial terms and in the ordinary and usual course of business of the Group, and the proposed annual caps for the R&D pipeline cooperation expenses are on normal commercial terms, are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

IV. 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.

Sunshine Lake Pharma

Sunshine Lake Pharma is a company incorporated in the PRC. It primarily engages in the development, manufacturing and sale of pharmaceutical product. The ultimate beneficial owners of Sunshine Lake Pharma are Ms. GUO Meilan and Mr. ZHANG Yushuai.

V. 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. Therefore, the transactions between the Company and Sunshine Lake Pharma constitute a continuing connected transaction of the Company.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the proposed annual caps for the R&D pipeline cooperation expenses under the Framework Agreement exceeds 5%, pursuant to Rule 14A.81 of the Listing Rules, the Framework Agreement and the proposed annual caps for R&D pipeline cooperation expenses contemplated thereunder are subject to the reporting, announcement, circular, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. TANG Xinfa, a non-executive Director, serves as a director and the general manager of Shenzhen HEC, which is the holding company of Sunshine Lake Pharma, Mr. TANG Xinfa is considered to have a material interest in the transactions contemplated between the Group and Sunshine Lake Pharma, and has abstained from voting on the resolutions of the Board approving the Framework Agreement and the transactions thereunder (including the Authorisation and the proposed annual caps for the R&D pipeline cooperation expenses).

VI. 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 the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D pipeline cooperation expenses). The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D cooperation expenses) 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 Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D cooperation expenses). The full text of the letter from the independent board committee is set out on pages IBC-1 to IBC-2 of this 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 Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D pipeline cooperation expenses).

The Independent Financial Adviser considers that the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D cooperation expenses) 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 Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps for the R&D cooperation expenses). The full text of the letter from Independent Financial Adviser issued by Gram Capital Limited containing its recommendation in respect of the Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps for the R&D cooperation expenses) is set out on pages IFA-1 to IFA-22 of this circular.

VII. 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:

(i) To ensure that the pricing terms of the Framework Agreement are on normal commercial terms and will not be prejudicial to the interests of the Company and its shareholders as a whole, the finance department of the Company will review the invoices, third party payment notices, agreements or any evidence of the actual cooperative pipeline R&D pipeline cooperation expenses to be paid by Sunshine Lake Pharma before arranging for reimbursement; The procurement department of the Company will cross-check the aforementioned documents (provided by Sunshine Lake Pharma) to determine whether the actual cooperation pipeline R&D pipeline cooperation expenses are in line with market practice. This can be done by comparing them with quotes obtained from at least two independent third parties for similar and comparable projects, or if the Company is unable to obtain comparable projects, expert consultants will be engaged to provide opinions on the fairness and reasonableness of the costs. In addition, the Finance Department is responsible for monitoring the transaction amount of these transactions on a monthly basis. Finally, the Company will also arrange the Group's auditors to conduct a special audit on the transactions under the Framework Agreement and Sunshine Lake Pharma will arrange its group auditors to conduct a special audit on the transactions under the Framework Agreement;

(ii) the procurement department of the Group will cross-check the aforesaid item (i) documents, which is provided by Sunshine Lake Pharma, to see if the actual R&D Pipeline Cooperation expenses is in line with the market practice (i.e. comparing with quotation of similar and comparable items obtained from at least two independent third parties, or engage an expert consultant to issue opinion on the fairness and reasonableness of cost if there is no comparable can be obtained by the Group); and

(iii) The Company will regularly review the transactions entered into with Sunshine Lake Pharma to identify any transactions that may be at risk of exceeding the annual caps for the R&D pipeline cooperation expenses and any measures taken in response to such transactions. The finance department is responsible for monitoring the transaction amounts of the continuing connected transactions at the end of each month and reporting to the Board, among other things, the implementation of the continuing connected transactions and the actual monetary amounts of the continuing connected transactions conducted during each quarter from January to September and at the end of each month from October to December (or more frequently if necessary). In the event that the total transaction amount reaches 80% of the annual cap for the R&D pipeline cooperation expenses or is expected to exceed the annual cap for the R&D pipeline cooperation expenses the next two months, the personnel of the finance department shall immediately notify the Board to determine the appropriate actions to be taken, such as recalculation of the annual cap for the R&D

pipeline cooperation expenses for the relevant year. The Company will initiate the procedures for increasing the annual caps of the R&D pipeline cooperation expenses (including obtaining Shareholders' approval) and reserve approximately 2 to 3 months to complete such procedures.

The Board considers that the above measures and procedures can ensure that the pricing and other terms of the transactions contemplated under the Framework Agreement are on normal commercial terms, are fair and reasonable, and in the interests of the Company and the Shareholders as a whole, and that the transactions contemplated under the Framework Agreement are conducted as agreed in the Framework Agreement respectively and in compliance with Chapter 14A of the Listing Rules.

VIII. EGM AND VOTING METHOD

A notice convening the EGM of the Company to be convened and 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, is set out on pages EGM-1 to EGM-3 of this circular. A 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 the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D pipeline cooperation expenses), therefore is required to abstain from voting on the relevant resolutions at the EGM. Shenzhen HEC is the holding company of Sunshine Lake Pharma. Therefore, Shenzhen HEC and its associates (such as HEC (Hong Kong) Sales Co., Limited) shall abstain from voting on the resolutions in relation to the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D pipeline cooperation projects).

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 the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D cooperation expenses), 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 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 form of proxy. Completion and return of the 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.

IX. 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.

X. RESPONSIBILITY STATEMENT

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

1 December 2023

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION ENTERING INTO THE DRUG R&D COOPERATION FRAMEWORK AGREEMENT

We refer to the circular of the Company dated 1 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 the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D cooperation expenses) and to advise the independent Shareholders in respect of the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D cooperation expenses). 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 the Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and the proposed annual caps for the R&D cooperation expenses 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 that the independent

Shareholders vote in favour of the resolutions in relation to the Framework Agreement and the transactions contemplated thereunder (including the Authorisation and the proposed annual caps for the R&D cooperation expenses) at the EGM.

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

TANG Jianxin	**XIANG Ling**	**LI Xuechen**
Independent non-executive director	*Independent non-executive director*	*Independent non-executive director*

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

Gram Capital Limited
嘉林資本有限公司

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

1 December 2023

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

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Framework Agreement (the "**Transactions**"), details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 1 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.

On 29 November 2023, the Company and Sunshine Lake Pharma entered into the Framework Agreement in relation to the proposed cooperation between the parties on the R&D and commercialization of the undergoing and future R&D pipeline cooperation projects Sunshine Lake Pharma in the PRC.

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

The Independent Board Committee comprising Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen (all being the independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the 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 announcements dated 30 October 2023 and 7 November 2023. Save for the aforesaid engagements, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company with executed agreement during the past two years immediately preceding the Latest Practicable Date.

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

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

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the 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 Framework Agreement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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 therein 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 focusing 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 Sunshine Lake Pharma

With reference to the Board Letter and as advised by the Directors:

- Sunshine Lake Pharma is a company incorporated in the PRC. It primarily engages in the development, manufacturing and sale of pharmaceutical product. The ultimate beneficial owners of Sunshine Lake Pharma are Ms. GUO Meilan and Mr. ZHANG Yushuai. 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.

- Sunshine Lake Pharma is a leading pharmaceutical research institution in China. It has established an independent research and development platform from early-stage drug discovery to late-stage clinical development. All aspects can be closely connected, operated efficiently and equipped with the capability of continuous independent innovation. It has more than 1,200 personnel. It has established a technical team consisting of scientists with extensive working experience in multinational pharmaceutical companies and young backbone talents with rich practical R&D experience, and has formed a large-scale, professional and comprehensive R&D team. Sunshine Lake Pharma focuses on diseases with huge unmet clinical needs in the fields of infection, oncology and chronic diseases, and is committed to developing the best-in-class or first-in-class products with breakthrough potential in the domestic and overseas markets. Relying on the advanced drug research and development technology platform, a total of 103 generic drugs, one innovative drug, four insulin drugs and two innovative drugs have been launched in China, the United States and Europe, nine new drugs are under phase II, III clinical trials, five clinical trials have been completed overseas, and a pipeline of drug candidates with diversified indications, rich targets and clear gradients has been established. It is expected that one to two innovative drugs will be applied for marketing every year.

- Sunshine Lake Pharma possesses first-class software and hardware research and development conditions. The research laboratory covers a total gross floor area of 20,000 square metres and is equipped with a large number of advanced research facilities and equipment, including more than ten liquid chromatography-mass spectrometry (LC-MS) systems, two magnetic resonance imaging (MRI) scanners, more than 400 high-performance liquid chromatography (HPLC) systems and X-ray powder diffractometer (XRD). There is also an advanced information management system that provides researchers with several leading pharmaceutical and scientific databases and journals around the world, including SciFinder, Reaxys, Thomson Pharma, Newport Premium, Integrity, Daily Drug News, Medtrack, Knowledge Center, Dialog, IMS Padds, etc.

- Sunshine Lake Pharma aims to develop into a world-class pharmaceutical research institution, strive to be innovative and the best to produce products that do not meet clinical needs and are international-oriented, lead the future with innovation, and benefit from clinical value to highlight the core competitiveness of projects, so as to create a high-value new medicine under the HEC brand. Focusing on three major fields of infection, tumour and chronic disease, it has established a research and development pipeline with rich targets, mutual synergy and clear gradient, hoping to provide patients with safe, effective and affordable high-quality drugs. In the field of infection, it has focused on hepatitis B, hepatitis C, influenza, RSV and other indications. Sunshine Lake Pharma has obtained the approval from the Ministry of Science and Technology of the PRC to establish a national key laboratory for the research and development of new anti-infective drugs. In the field of oncology, based on molecularly targeted drugs, Sunshine Lake Pharma has gradually expanded the research and development of a full range of multi-level innovative products, and created a diversified treatment plan covering tumour targeting, tumour immunity and new biological treatment for tumour treatment. In the field of chronic diseases, Sunshine Lake Pharma has also taken clinical needs as the starting point, deeply deployed the diabetes pipeline, established a comprehensive diabetes product line from chemical drugs and biological drugs series, and created a high-quality, diversified and full-cycle diabetes ecological management system for patients, becoming the leader in China's diabetes field.

- The technology and research and development capabilities of Sunshine Lake Pharma have been recognised by national, provincial and ministerial government departments, scientific research institutions and other units. It is a national high-tech enterprise, a national intellectual property demonstration enterprise, and a national-level technology centre for internationalisation and industrialization of preparations. It was approved to establish a national key laboratory for anti-infective new drug research and development through reorganisation in 2023. In 2022, it won the "Golden Horse Award for Innovative BigPharma Enterprise with the Most R&D Strength" (最具研發實力創新BigPharma企業金馬獎), and was successively awarded the "Top 100 Enterprises in China's Pharmaceutical Industry" (中國醫藥工業百強企業) and the "China's Best Industrial Enterprises in Pharmaceutical R&D Pipeline" (中國醫藥研發產品線最佳工業企業). It has been successively awarded "Top 30 in the China Drug R&D Strength Ranking List" (中國藥品研發實力排行榜TOP30) and "Top 30 in the China Chemical Drug R&D Strength Ranking List" (中國化藥研發實力排行榜TOP30). The group actively builds a globally innovative patent protection system. As of 30 June 2023, Sunshine Lake Pharma and its subsidiaries obtained 1,963 patents in total (including those were in the application progress), including 1055 domestic patents and 908 overseas patents. Sunshine Lake Pharma has undertaken a total of 25 major national science and technology projects on the topic/sub-topic/task of "Major New Drug Development" (重大新藥創制), and ten provincial and municipal projects such as provincial-level key field research and development plans, innovation teams, and science and technology projects.

2. Reasons for and benefits of the Transactions

Reasons for and benefits of the Transactions are set out under the section headed "III. REASONS FOR AND BENEFITS OF THE TRANSACTIONS" in the Board Letter.

Pursuant to the Framework Agreement, the Company and Sunshine Lake Pharma agreed to cooperate in a series of drug R&D projects to jointly carry out the R&D of 17 innovative drugs (the "**Innovative Products Projects**"); and small molecule generic drug channel projects (tentatively 20 drugs) (the "**Generic Drug Projects**", together with the Innovative Products Projects, the "**R&D pipeline cooperation projects**") in China. As advised by the Directors, the pharmaceutical products under the Innovative Products Projects are innovative drug. The proposed R&D pipeline cooperation expenses for Innovative Products Projects accounted for the majority proportion of the total proposed R&D pipeline cooperation expenses under the Framework Agreement.

With reference to the Company's annual report for the year ended 31 December 2022 (the "**2022 Annual Report**"), at present, with the optimization of the policy environment of the innovative drugs and the country's gradual improvement of the intellectual property rights infrastructure, innovative activities began to thrive and prosperous development in domestic innovative drug research and development is observed, thereby and accelerating the development of the domestic innovative drug industry. Benefiting from favourable policy and rapid industrial development, the number and variety of innovative drugs approved in China have increased sharply. Pursuant to the National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2022)《(國家基本醫療保險、工傷保險和生育保險藥品目錄(2022年)》) issued by the National Healthcare Security Administration and the Ministry of Human Resources and Social Security, which has been officially implemented on 1 March 2023, 111 types of drugs are added in such new version of the national Medical Reimbursement Drug List. With the normalization of adjustment to Medical Reimbursement Drug List and the institutionalization of national negotiation on innovative drugs, the market size of China's innovative drugs will be steadily expanding. The research and development of innovative drugs is of great significance to China as an innovative country. The invention of drugs with independent intellectual property rights not only has a better therapeutic effect on major diseases, but also reduces the dependence on new foreign drugs. Therefore, the innovative drug industry has a higher rate of return, as well as economic and social benefits.

As also stated in the 2022 Annual Report, looking forward, due to the enhancement in domestic national income level and the people's increasing expectation for the quality and effectiveness of drugs, the demand for effective drugs from domestic pharmaceutical companies is expected to surge. Therefore, pharmaceutical companies with strong commercialization capabilities, reasonable research pipelines, compatible R&D capabilities and funding levels, remarkable clinical trial results and strong pharmaceutical innovation capabilities will have better development potential and investment value.

As advised by the Directors, the Company will continually increase its investment in R&D and accelerate the transformation of drug R&D into clinical applications in the therapeutic areas of anti-infective, endocrine and metabolic diseases. In addition, the Company will continue to strengthen its product R&D and innovation capabilities, constantly introduce new products and enrich the existing product portfolio to enhance the market competitiveness of its products.

As stated in the Board Letter, the Company is principally engaged in drug production, sales of drugs in the PRC and the re-development of existing drugs. Sunshine Lake Pharma is principally engaged in drug development, production and sales outside the PRC. In terms of R&D, the Company can only carry out the re-development of existing drugs, while Sunshine Lake Pharma has full-cycle drug development capabilities covering all aspects, including pre-clinical R&D and clinical development of small molecule and large molecule new drugs, as well as the development of small molecule generic drugs and biosimilars. The Company currently does not possess the full-cycle drug development capabilities similar to that of Sunshine Lake Pharma. The Company's core competitiveness lies in its strong domestic product commercialization capabilities. In the

fast-changing domestic pharmaceutical market, it is the best cooperation model to cooperate with Sunshine Lake Pharma in R&D and participate in commercialization sharing. R&D pipeline cooperation projects is conducive to accelerating the R&D progress of relevant products, so as to provide more high-quality pharmaceutical products for the Company's domestic commercialization in the future, and achieve complementary advantages, win-win and mutual benefit. Therefore, the Company will continue to increase investment in R&D and accelerate the transformation of drug R&D into clinical application in the therapeutic areas of anti-infective, endocrine and metabolic diseases. In addition, the Company will continue to strengthen product R&D and innovation capabilities, continuously launch new products, enrich the existing product portfolio and enhance the market competitiveness of products. The Transactions are in line with the aforesaid development strategy of the Company.

We noted that previously, the Company acquired target products with all interests, benefits attached and all rights legally entitled, and all obligations assumed in accordance with laws within the PRC thereon (the "**Target Asset(s)**") from Sunshine Lake Pharma. Despite that relevant acquisitions were (i) in line with the Group's development strategy; (ii) appropriate (as compared to self-research-and-develop); and (iii) in the interests of the Company and the Shareholders as a whole, it took substantial working capital of the Group for the relevant completion (e.g. the Group's acquisition of two Target Assets with cash consideration of RMB2,057 million in 2019; the Group's acquisition of 27 Target Assets with cash consideration of approximately RMB1,626.43 million in 2019; the Group's acquisition of six Target Assets with cash consideration of RMB505.2 million in 2018 (the aforesaid acquisitions together, the "**Previous Acquisitions**")). Despite that the Company may avoid the risk of failure in research and development for the Target Assets by the Previous Acquisitions, the considerations of the Target Assets were substantially higher than the research and development costs of the Target Assets. As we compared the cost of obtaining/using the Target Assets in different way, we are of the view that the aforesaid findings are meaningful for Shareholders' information.

As also advised by the Directors, as (i) the Company has right to request Sunshine Lake Pharma to review and update the list of R&D pipeline cooperation projects within one month after the end of each financial year pursuant to the Framework Agreement; and (ii) the background of Sunshine Lake Pharma in the aspect of research and development as mentioned in section headed "Information on Sunshine Lake Pharma" above, the risk of failure in research and development for a particular pharmaceutical products under the Transactions may be mitigated.

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

3. Principal terms of the Transactions

Set out below are the key terms of the Transactions, details of which are set out under the section headed "II. THE FRAMEWORK AGREEMENT" in the Board Letter.

Date:

29 November 2023

Parties:

The Company; and Sunshine Lake Pharma

Term:

36 months from the effective date of the Framework Agreement

Both parties have agreed that the Framework Agreement may be renewed by mutual agreement and subject to the fulfilment of all internal and external review procedures to be performed by both parties after negotiation. Under the Framework Agreement, only the Company has the right to early terminate the Framework Agreement at any time by giving written notice to Sunshine Lake Pharma and shall not be liable to pay compensation to Sunshine Lake Pharma for such early termination.

Both parties agreed, if the Framework Agreement is terminated by the expiry of the term or in accordance with its terms, regardless of whether or not the relevant pipeline has obtained the approval for registration of drug within the term of the Framework Agreement, the commercialization of each pipeline project and the sales sharing arrangement which have actually commenced under the Framework Agreement shall continue to be executed in accordance with the relevant provisions of the Framework Agreement during the validity period of the intellectual property rights and approvals in respect of the relevant pipeline as required by law.

Having considered (i) that only the Company has the right to early terminate the Framework Agreement at any time by giving written notice to Sunshine Lake Pharma; and (ii) the above-mentioned sales sharing arrangement under the circumstances that the Framework Agreement is terminated by the expiry of the term or in accordance with its terms, we are of the view that although the term of the Framework Agreement is 36 months from the Effective Date, the interest of the Company in respect of sales sharing arrangement would be safeguarded.

Nature of transaction:

The Company and Sunshine Lake Pharma agreed to cooperate in a series of drug R&D projects to jointly carry out the R&D of (i) 17 innovative drugs (i.e. the Innovative Products Projects); and (ii) small molecule generic drug pipeline projects (tentatively 20 drugs) (i.e. the Generic Drug Projects) in China. Sunshine Lake Pharma will formulate the R&D plan and be solely responsible for the R&D of the R&D pipeline cooperation projects. The Company will provide financial support solely for the clinical stage R&D expenses incurred by Sunshine Lake Pharma in the R&D pipeline cooperation projects (the "**R&D pipeline cooperation expenses**"). Details of the Innovative Products Projects and the Generic Drug Projects are set out under the section headed "List of R&D pipeline cooperation projects" in the Board Letter.

Upon the Effective Date of the Framework Agreement, the Company has right to request Sunshine Lake Pharma to review and update the list of R&D pipeline cooperation projects within one month after the end of each financial year. If an update to such list is agreed by both parties, both parties shall sign a written confirmation and such updated list shall take effect on the signing date of the written confirmation (the "**Review of list of R&D pipeline cooperation projects**").

In addition, the Company is exclusively responsible for the commercialization of the products corresponding to the R&D pipeline cooperation projects in China, and the revenue generated from the sales of such products in China will be shared with Sunshine Lake Pharma through sales sharing.

Investment of R&D pipeline cooperation expenses:

Both parties agreed that the Company will provide maximum investment amount of R&D pipeline cooperation expenses for (i) innovative drugs of RMB150,000,000, RMB400,000,000, RMB400,000,000 and RMB250,000,000; and (ii) small molecule generic drugs of RMB25,000,000, RMB40,000,000, RMB40,000,000 and RMB10,000,000, for each of the period from the Effective Date to 31 December 2023, the two years ending 31 December 2024 and 2025, and the period from 1 January 2026 to the expiry date of the term of the Framework Agreement.

R&D pipeline cooperation expenses payment method:

When Sunshine Lake Pharma is required to pay the R&D pipeline cooperation expenses:

(a) the Company shall reimburse the full amount to Sunshine Lake Pharma in a timely manner according to the invoices, third-party payment notices or agreements provided by Sunshine Lake Pharma (generally no more than 5 working days from the date of receipt of the notice from Sunshine Lake Pharma), and the payment shall then be made by Sunshine Lake Pharma to external parties; or

(b) the Company shall directly pay the R&D pipeline cooperation expenses to external parties according to the documents such as third-party invoices, payment notices or agreements provided by Sunshine Lake Pharma, and according to the request by Sunshine Lake Pharma. Both parties shall conduct reconciliation in writing or by email at the end of each month.

In case of special circumstances, where the relevant expenses shall be paid in advance by Sunshine Lake Pharma. After Sunshine Lake Pharma provides the Company with the relevant bank payment slip, third-party payment notice, clinical trial agreement and other relevant documents, the Company shall pay the relevant amount in full to Sunshine Lake Pharma no later than three working days after Sunshine Lake Pharma provides the relevant documents.

In the event if there is any failure to obtain drug registration certificate of the R&D pipeline cooperation projects issued by the NMPA, both parties agreed (i) for innovative drugs projects, the Company has the right to request to transfer the R&D pipeline cooperation expense invested by the Company to the failed project ("**Invested monies in failed project**") to other agreed innovative drugs project(s) in its sole discretion as to increase the sharing ratio of the Company (i.e. (a) the invested monies in failed projects will be calculated in the sharing ratio of other innovative drug projects; and (b) the sharing ratio of innovative drug projects shall not exceed its sale revenue. If there is any excess, the excess portion will not be included in the calculation and the Company has right to decide to include the excess portion in other innovative drug projects); (ii) for small molecule generic drugs projects, the Company has right to determine and transfer such invested monies to other small molecule generic drugs projects, which has not been invested by the Company previously and entitle to sales sharing of the revenue as agreed by both parties. Having considered that there will be no economic return from the self-research-and-development of pharmaceutical products should such self-research-and-development of pharmaceutical products fails, we consider the aforesaid arrangement is beneficial to the Company.

Sales Sharing:

Cooperative drugs (i.e. Innovative Products Projects)

The Company and Sunshine Lake Pharma will separately enter into sales sharing agreement for sales sharing of the revenue, which is generated from the sales of such products in the PRC. The sharing ratio is determined with reference to the following principles:

- The Company's basic sharing ratio (the "**Basic Sharing Ratio**") for the commercialization shall be determined with reference to the market sales expense ratio of the pharmaceutical market-oriented CSO institutions and the Company's past sales sharing ratio for similar drugs will be taken into account to determine the Basic Sharing Ratio: Basic Sharing Ratio plus

and the ratio for the Company's R&D pipeline cooperation expenses invested in such R&D pipeline cooperation projects to the total R&D pipeline cooperation expenses of such cooperation projects; and

- The sales sharing ratio is calculated with reference to the following formula:

  The Company's sales sharing ratio = Basic Sharing Ratio + Basic Sharing Ratio x the ratio of the Company's R&D pipeline cooperation expenses invested in such R&D pipeline cooperative projects to the total R&D expenses of such cooperative projects.

Our analyses

According to the above formula, the Company's revenue sharing ratio is the basic sharing ratio with adjustment of the proportion of the Company's R&D expenses invested to total R&D expenses of such cooperative channel projects.

In respect of the basic sharing ratio, both market sales expenses ratio of pharmaceutical market-oriented CSO institutions and Company's previous sales sharing ratio for similar drugs will be made reference to for the determination of the Basic Sharing Ratio.

Based on our independent research on continuing connected transactions conducted by other companies listed on the Stock Exchange, the determination of price by reference to market price is one of the commonly adopted pricing method by listed issuer for continuing connected transactions.

Upon our further request, to ensure the Basic Sharing Ratio being in line with the then industry practice, the Company will conduct the following measures, including but not limited to (i) discussing with at least two pharmaceutical manufacturers (who are independent third parties and are engaged in the manufacturing and sales of pharmaceutical products which is similar to the target products) in respect of their existing sales income sharing model; (ii) searching through public sources (i.e. Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange, etc.) to seek if there is any public information in respect of similar sales sharing model; or (iii) engage expert consultant to issue opinion on the fairness and reasonableness of the sales income sharing model in the event that the Company fails to obtain information from (i) and (ii).

We noted that there were listed pharmaceutical companies (Shanghai Henlius Biotech, Inc. (2696), Shanghai MicroPort Medical Robot Group Co Ltd (2252) and BeiGene, Ltd. (6160 & 688235.SH)) engaging other party for the distribution/ commercialization of pharmaceutical products. We consider searching through public sources may be a way to obtain comparable information. Furthermore, we consider the Company could obtain comparable information by way of the discussion with at least two pharmaceutical manufacturers (who are independent third parties and are

engaged in the manufacturing and sales of pharmaceutical products which is similar to the target products) in respect of their existing sales income sharing model. This is in line with market practice for pricing policy of continuing connected transactions.

In respect of the obtaining comparable information by way of engaging expert consultant to issue opinion, the Company advised us that they proposed to engage Frost & Sullivan or other industry expert which has similar experience as Frost & Sullivan to issue opinion. We noted that Frost & Sullivan provided various industry overview with relevant figures to listed companies in different industries (including pharmaceutical enterprises).

Based on the above, we are of the view that the above measures could ensure the Basic Sharing Ratio being in line with the then industry practice.

In respect of the adjustment proportion part, as the adjustment proportion part is made in proportion to the R&D expenses invested by the Group and such adjustment will enlarge the revenue sharing ratio, we consider adjustment proportion part to be fair and reasonable.

Based on the above, we are of the view that the sales sharing mechanism for cooperative drugs under the Framework Agreement is fair and reasonable.

It appears that the Company will bear most of the R&D expenses for Innovative Products Projects. However, Shareholders are reminded that there would also be certain costs which cannot be quantified for the development of Innovative Products Projects, such as investment in development of R&D laboratory, the cost of purchasing relevant laboratory equipment, training and hiring qualified and experienced staff.

Small molecule generic drugs (i.e. the Generic Drug Projects)

For small molecule generic drugs, the sharing ratio is determined in accordance with the following principles:

- For centralised procurement of drugs by medical institutions under the small molecule generic drug channel projects, Sunshine Lake Pharma has the right to participate in the centralised procurement of the corresponding drugs for such projects on its behalf, and pay the Company 10% of the sales revenue generated by Sunshine Lake Pharma's centralised procurement business as sales sharing on an annual basis.

  Our analyses: With reference to the Board Letter, the Board is of the view that such sales sharing ratio is no less favourable than those offered by independent third party with reference to an authorisation of payment between the Company and an independent third party (the "**Independent Arrangement**"). For our due diligence purpose, we obtained relevant agreements in respect of the aforesaid payment arrangement between the Company (the party who will be responsible for selling products) and the

independent third party (the party who will not be responsible for selling products). We acknowledged that the proportion which the Group (the party who will not be responsible for selling products) will be entitled to (i.e. 10% of the sales revenue) under the sales sharing arrangement pursuant to the Framework Agreement is higher than the proportion to which the independent third party (the party who will not be responsible for selling products) is entitled pursuant to the Independent Arrangement. Despite that the independent third party is not responsible for research and development of relevant products for obtaining approval of launch such products (as generic products) in the PRC markets, (i) the purpose of comparison is to assess the sales sharing ratio regarding the sale of such products; and (ii) as advised by the Directors, majority of R&D expenses incurred by the independent third party for such products (as innovative pharmaceutical products) which is significantly larger than the R&D expenses for obtaining approval of launching such products (as generic pharmaceutical products) in the PRC markets by the Company.

Therefore, we concur with the Directors that the Independent Arrangement (i.e. the Company is responsible for the sales; and the independent third party bear majority R&D costs) is appropriate for reference (i.e. Sunshine Lake Pharma is responsible for the sales; and the Company bears majority R&D costs).

- The Company will be exclusively responsible for the commercialization of the small molecule generic drug channel projects in the non-centralised procurement market. 70% of the sales revenue generated from such projects each year shall be attributed to the Company and the remaining 30% to Sunshine Lake Pharma.

  Our analyses: As advised by the Directors, the ''70% of the sales revenue'' was determined with reference to (i) the Company being responsible for the sales; (ii) the proportion of the distribution cost to the revenue of the Company in the past; and (iii) the remaining portion being shared by both parties. As also advised by the Directors, distribution cost would be a major cost of commercialization of drug products in the non-centralised procurement market and was expected to be 40% of sales revenue. We noticed that the average proportion of the Group's distribution costs to the Group's revenue for the five years ended 31 December 2022 was approximately 41%. As the expected distribution cost contemplated under the commercialization of the small molecule generic drug channel projects in the non-centralised procurement market (i.e. 40% of sales revenue) is close to the aforesaid average proportion of distribution costs to revenue (i.e. approximately 41%), we consider the expected distribution cost contemplated under the commercialization of the small molecule generic drug channel projects in the non-centralised procurement market of 40% to

be justifiable. The remaining proportion would be approximately 60% of the sales revenue generated from the small molecule generic drug channel projects in the non-centralised procurement market.

Upon our request, we obtained the R&D expenses for the Generic Drug Projects incurred by Sunshine Lake Pharma in total before 1 November 2023 and the proposed R&D expenses incurred and to be incurred since 1 November 2023. We noted that the proportion of R&D expenses for the Generic Drug Projects incurred by Sunshine Lake Pharma in total before 1 November 2023 to total proposed R&D expenses for the Generic Drug Projects (i.e. 50% to 60%) was larger than the R&D expenses incurred and to be incurred since 1 November 2023 to total proposed R&D expenses for the Generic Drug Projects (i.e. 40% to 50%). Therefore, we consider that the Company will be benefit from the sharing of half of remaining proportion of sales (remaining proportion of sales: 60% of the sales revenue generated from the small molecule generic drug channel products in the non-centralised procurement markets). Based on the aforesaid (i.e. 40% of sales revenue as expected distribution costs and 30% of sales as proportion to be entitled by the Group), we consider the revenue sharing ratio (i.e. 70% of the sales revenue) to be fair and reasonable.

Intellectual property rights:

In addition to the drug registration approval, other intangible assets related to production technologies, procedures, formulas, skills and related technical information, achievements, patents and other intangible assets related to products or compounds obtained from or licenced from third parties under each R&D pipeline cooperation projects under the Framework Agreement are solely owned by Sunshine Lake Pharma.

As related drug R&D pipeline cooperation projects are actually an access to clinical or post-clinical pipeline, the Company has not participated in the pre-clinical stage such as finding of the abovementioned pipeline compounds and pilot tests. All of the costs in relation to such pipeline pre-clinical stage are self-invested by Sunshine Lake Pharma and therefore Sunshine Lake Pharma exclusively enjoys other production technology, process, formulation, production crafts in relation to products or compounds and related technology information, results and patent-related intellectual property rights, which are reasonable. Meanwhile, as stated above, the Company is not required to pay any further cost to Sunshine Lake Pharma in relation to commercialized products.

In respect of the drug registration approval, when any R&D pipeline cooperation projects under the Framework Agreement meets the requirements for application for the drug registration certificate from the NMPA and its subordinate units, the Company has the right to choose to apply for the drug registration certificate directly by using the name of the Company as applicant.

In respect of the drug registration certificate registered as the marketing authorization holder of the drug registration certificate by Sunshine Lake Pharma, during the validity period of such drug registration certificate, if the relevant regulatory requirements allow Sunshine Lake Pharma to change the marketing authorization holder of such drug registration certificate to the Company or its subsidiary, the Company shall have the right to request Sunshine Lake Pharma to change the marketing authorization holder of such drug registration certificate to the Company or its subsidiary by written notice.

Having considered the following factors:

- as related drug R&D pipeline cooperation projects are actually an access to clinical or post-clinical pipeline, the Company has not participated in the pre-clinical stage such as finding of the abovementioned pipeline compounds and pilot tests;

- the Company entered into the Framework Agreement is for the purpose to provide R&D costs for such projects and share sales income of such products. Under the arrangement of the Framework Agreement, the Company can meet the aforesaid purpose and if such intellectual property rights will be transferred to the Company, the Company may bear addition purchase consideration, which is not in line with the new cooperation model between the Group and Sunshine Lake Pharma as disclosed in the Company's circular dated 28 May 2021;

- pursuant to the Framework Agreement, Sunshine Lake Pharma shall not transfer, licence or otherwise dispose of all or any part of the intangible assets corresponding to the relevant pipelines in respect of which the research and development costs have been paid by the Company in accordance with the agreements under the Framework Agreement to any other third party prior to obtaining written consent from the Company.

we are of the view that the non-transfer of intellectual property rights is reasonable to the Company.

Pricing Policy

The proposed annual caps for the R&D pipeline cooperation expenses under the Framework Agreement are determined after negotiation at arm's length based on the actual R&D pipeline cooperation expenses for the R&D pipeline cooperation projects incurred by the Company and Sunshine Lake Pharma.

As the R&D expenses are on a dollar-to-dollar basis on the actual R&D expenses for the cooperation channels incurred by the Company and Sunshine Lake Pharma, we consider the pricing policy is fair and reasonable.

4. Internal control measures

We understood that the Group will implement certain internal control rules to ensure the fairness pricing of the Transaction and the Basic Sharing Ratio. Details of the internal control rules are set out in the section headed "Internal Control Level" of the Board Letter. We noted that (i) the finance department of the Company will review the invoices, third-party payment notices, agreement or any evidence of actual cooperative pipeline R&D pipeline cooperation expenses to be paid by Sunshine Lake Pharma before arranging for reimbursement; and (ii) the procurement department of the Group will cross-check the aforesaid item (i) documents, which is provided by Sunshine Lake Pharma, to see if the actual R&D pipeline cooperation expenses is in line with the market practice (i.e. comparing with quotation of similar and comparable items obtained from at least two independent third parties, or engage an expert consultant to issue opinion on the fairness and reasonableness of cost if there is no comparable can be obtained by the Group). As there will be cross-check procedures for the R&D pipeline cooperation expenses, we are of the view that the effective implementation of the internal control policies would help to ensure fair pricing of the Transactions.

Furthermore, we noted from the internal control measures that the finance department is responsible for monitoring the transaction amounts of the Transactions on a monthly basis and there will be further actions to be taken if the transaction amount reaches certain threshold. Therefore, we are also of the view that there will be sufficient measures to monitor the utilisation of annual caps.

To assess the effectiveness of the implementation of the internal control measures for the Transactions, we discussed with staff of the finance department and procurement department (both of which will be involved in the internal control procedures) and management of the Company. We noted that such staff are aware of the internal control measures and will comply with the internal control measures when conducting the transactions contemplated under the Transactions. We also obtained the internal control document upon our request. After reviewing the document, we acknowledged that the contents of internal control document included the internal control procedures for fair pricing of the Transactions and the determination of the Basic Sharing Ratio, as disclosed in the Board Letter. Based on the aforesaid workdone, we do not doubt the effectiveness of implementation of the internal control measures for the Transactions.

5. The proposed annual caps

The table below demonstrates the proposed annual caps for the R&D pipeline cooperation expenses of (i) innovative drugs; and (ii) small molecule generic drugs, during the term of the Framework Agreement:

	For the period from the Effective Date to 31 December 2023 (the "2023 Period") *RMB'000*	**For the year ending 31 December 2024** *RMB'000*	**For the year ending 31 December 2025** *RMB'000*	**For the period from 1 January 2026 to the expiry date (the "Expiry Date") of the Framework Agreement (the "2026 Period")** *RMB'000*
R&D pipeline cooperation expenses of innovative drugs	150,000	400,000	400,000	250,000
R&D pipeline cooperation expenses of small molecule generic drugs	25,000	40,000	40,000	10,000

We understood that the Directors considered certain factors as set out the sub-section headed "Proposed Annual Caps and Basis of Determination for the R&D Pipeline Cooperation Expenses" of the Board Letter when determining the proposed annual caps.

R&D pipeline cooperation expenses of innovative drugs

Upon our request, we obtained a list, showing the estimated annual R&D expenses for each of the 17 Innovative Products Projects. The summation of estimated annual R&D expenses for the 17 Innovative Products Projects for the four years ending 31 December 2026 amounted to approximately RMB395 million (November 2023 and December 2023: RMB148 million), RMB450 million, RMB617 million and RMB620 million (January 2026 to October 2026: RMB391 million). As the aforesaid estimated annual R&D expenses were close to or more than the R&D pipeline cooperation expenses of Innovative Products Projects, it indicated the possible demand of R&D pipeline cooperation expenses from the Group (i.e. the R&D expenses which the Group is willing to invest) and the possible R&D expenses from Sunshine Lake Pharma's internal resources.

As advised by the Directors, in addition to the estimated annual R&D expenses for the 17 Innovative Products Projects, the Directors also considered the Group's willingness on the investment amount of R&D pipeline cooperation expenses, which was based on the number of Innovative Products Projects and historical annual average R&D cost on innovative drug projects. We consider the historical annual average R&D cost on innovative drug would be an appropriate reference, which is comparable, fair and representative, after considering the following reasons:

(i) as the 17 Innovative Products Projects are innovative drugs projects, only R&D cost on innovative drug will be made reference; and

(ii) based on the information provided by the Company, therapeutic areas in relation to the Group's historical innovative drug projects are the same as therapeutic areas in relation to the 17 Innovative Products Projects, i.e. therapeutic areas of anti-infection, chronic disease and oncology.

Based on the R&D pipeline cooperation expenses of Innovative Products Projects (i.e. RMB400 million on an annual basis) and the estimated number of 17 Innovative Products Projects (i.e. number of innovative drugs as listed in the appendix to the Framework Agreement), the implied annual average R&D expenses for each Innovative Products Projects amounted to approximately RMB23.5 million. Upon our request, the Company provided us the Group's annual R&D cost on innovative drug for the five years ended 31 December 2022. As further advised by the Directors, as the Group's R&D was affected by COVID-19, it would be more appropriate to assess the implied annual average R&D expenses for each Innovative Products Project by reference to the Group's annual R&D cost on innovative drug for 2018, 2019 and 2020. For illustrative purpose, the Group's annual average R&D cost on each innovative drug project for the three years ended 31 December 2020 was close to the implied annual average R&D expenses for each Innovative Products Project (i.e. approximately RMB23.5 million, calculated by RMB400 million on an annual basis over 17 Innovative Product Projects). The annual R&D pipeline cooperation expenses of Innovative Product Projects (i.e. the R&D expenses which the Group is willing to invest) of RMB400 million was not deviated from the calculation results by multiplying the number of Innovative Products Projects (i.e. 17) and the Group's annual average R&D cost on each innovative drug project for the three years ended 31 December 2020. Accordingly, we consider the annual R&D pipeline cooperation expenses of Innovative Product Projects (i.e. the R&D expenses which the Group is willing to invest) of RMB400 million on a full year basis to be fair and reasonable.

According to the table above, the proposed annual caps for the 2023 Period and the 2026 Period represented 37.5% and 62.5% to the annual R&D pipeline cooperation expenses of Innovative Product Projects of RMB400 million (on a full year basis and the Group is willing to invest). As advised by the Directors, such arrangement was because the settlement of R&D expenses normally took place in the fourth quarter in a year.

Based on the above factors, we are of the view that proposed annual caps in respect of R&D pipeline cooperation expenses of innovative drugs for the period from the Effective Date to the Expiry Date are fair and reasonable.

R&D pipeline cooperation expenses of small molecule generic drugs

Upon our request, we obtained a list showing the estimated annual R&D expenses for each of small molecule generic drugs projects. The summation of estimated annual R&D expenses such projects for the four years ending 31 December 2026 amounted to approximately RMB24.9 million, RMB36.4 million, RMB39.9 million and RMB9.27 million. The aforesaid estimated annual R&D expenses were close to the R&D pipeline cooperation expenses of small molecule generic drugs for the corresponding period.

As advised by the Directors, in addition to the estimated annual R&D expenses for the 20 Generic Drug Projects, the Directors also considered the Group's willingness on the investment amount of R&D pipeline cooperation expenses, which was based on the number of Generic Drug Projects and historical annual average R&D cost on generic drug.

We consider the historical annual average R&D cost on generic drug would be an appropriate reference, which is comparable, fair and representative, after considering the following reasons:

(i) as the 20 Generic Drug Projects are generic drugs projects, only R&D cost on generic drugs will be made reference; and

(ii) based on the information provided by the Company, therapeutic areas in relation to the Group's historical generic drug projects are the same as therapeutic areas in relation to the 20 Generic Drug Projects, i.e. therapeutic areas of anti-infection, chronic disease and oncology.

Based on the annual R&D pipeline cooperation expenses of each Generic Drug Projects (i.e. RMB40 million on a full year basis) and the estimated number of small molecule generic drugs (i.e. 20 projects), the implied annual average R&D expenses for each the Generic Drug Project amounted to RMB2 million. Upon our request, the Company provided us the Group's annual R&D pipeline cooperation expenses of generic drugs for the five years ended 31 December 2022. As mentioned above, as the Group's R&D was affected by COVID-19, it would be more appropriate to assess the implied annual average R&D pipeline cooperation expenses of the Generic Drug Projects by reference to the Group's annual R&D cost on generic drugs for 2018, 2019 and 2020. For illustrative purpose, the Group's annual average R&D cost on each generic drug project for the three years ended 31 December 2020 was close to the implied annual average R&D expenses for each the Generic Drug Project (i.e. approximately RMB2 million, calculated by RMB40 million on an annual basis over 20 Generic Drug Projects). The annual R&D pipeline cooperation expenses of Generic Drug Projects (i.e. the R&D expenses which the Group is willing to invest) of RMB40 million was close to the calculation results by multiplying the number of Generic Drug Projects (i.e. 20) and the Group's annual average R&D cost on each generic drug project for the three years ended 31 December 2020. Accordingly, we consider the annual R&D pipeline cooperation expenses of Generic Drug Projects (i.e. the R&D expenses which the Group is willing to invest) of RMB40 million on a full year basis to be fair and reasonable.

We noted that the proposed annual caps in respect of R&D pipeline cooperation expenses of small molecule generic drugs for the 2023 Period and the 2026 Period accounted for approximately 63% and 25% to those on a full-year basis. Having considered that (i) the proposed annual caps for the 2023 Period and the 2026 Period are in line with the estimated annual R&D expenses for small molecule generic drugs projects for the relevant periods; and (ii) the Company expected to complete R&D stage of nearly half of Generic Drug Projects on or before 2026, we consider such arrangements are justifiable.

Based on the above factors, we are of the view that proposed annual caps in respect of R&D pipeline cooperation expenses of small molecule generic drugs for the period from the Effective Date to the Expiry Date are fair and reasonable.

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

6. Listing Rules implication regarding the continuing connected transactions

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the continuing connected transactions must be restricted by their respective proposed annual cap for the period; (ii) the terms of the continuing connected transactions (including their respective annual caps) must be reviewed by the independent non-executive Directors annually; 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 entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) 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 circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF 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 Xinfa	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 31 December 2022. 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.

Note:

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

1. The shareholding information of the Shareholders as at the Latest Practicable Date are based on the information recorded in the register required to be kept by the Company under section 352 of the SFO.

2. As at the Latest Practicable Date, Shenzhen HEC Industrial Development Co., Ltd. directly and indirectly owned 25.98% equity interest in Guangdong HEC Technology Holding Co., Ltd. and Guangdong HEC Technology Holding Co., Ltd. (which held 21,815,200 H Shares) was a controlled corporation of Shenzhen HEC Industrial Development Co., Ltd.; and Shenzhen HEC Industrial Development Co., Ltd. indirectly owned 13.06% equity interest in Sunshine Lake Pharma Co., Ltd., and HEC (Hong Kong) Sales Co., Limited (which held 226,200,000 H Shares) is wholly-owned by Sunshine Lake Pharma Co., Ltd. (a controlled corporation of Shenzhen HEC Industrial Development Co., Ltd.). Therefore, Shenzhen HEC Industrial Development Co., Ltd. is deemed to be interested in the Shares held by Guangdong HEC Technology Holding Co., Ltd. and HEC (Hong Kong) Sales Co., Limited (248,015,200 H Shares in total).

   Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. owned 42.34% equity interest in Shenzhen HEC Industrial Development Co., Ltd. and 58.00% equity interest in Shaoguan Xinyuneng Industrial Investment Company Limited, which owned 27.00% equity interest in Shenzhen HEC Industrial Development Co., Ltd., therefore Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. is deemed to be interested in the Shares which are interested by Shenzhen HEC Industrial Development Co., Ltd.

   Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. owned 30.66% equity interest in Shenzhen HEC Industrial Development Co., Ltd. and 42.00% equity interest in Shaoguan Xinyuneng Industrial Investment Company Limited, which owned 27.00% equity interest in Shenzhen HEC Industrial Development Co., Ltd., therefore Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. is deemed to be interested in the Shares which are interested by Shenzhen HEC Industrial Development Co., Ltd.

3. Sunshine Lake Pharma Co., Ltd. pledged 226,200,000 Domestic Shares to a third-party lender as collateral for the loan provided to it by the third-party lender.

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

5. As at the Latest Practicable Date, Ms. GUO Meilan ("**Ms. Guo**") owned 74.63% equity interest in Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd., therefore Ms. Guo is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd.

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

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

7. Ms. HUA Xiaoyi is the spouse of Mr. ZHANG Yushuai and, therefore, is deemed to be interested in the Shares which are interested by Mr. ZHANG Yushuai under the SFO.

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 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 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 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 circular:

(a) the Framework Agreement;

(b) the letter from the Board dated 1 December 2023, the text of which is set out on pages 4 to 30 of this circular;

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

(d) the letter of advice from Gram Capital Limited dated 1 December 2023, the text of which is set out on pages IFA-1 to IFA-22 of this circular;

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

(f) a copy of this circular.

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

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

(Stock Code: 01558)

NOTICE OF 2023 THIRD EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2023 third extraordinary general meeting (the "**EGM**") of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the "**Company**") will be held at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC at 10:00 a.m. on Wednesday, 27 December 2023 to consider and, if thought fit, approve the following resolution. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 1 December 2023 (the "**Circular**").

ORDINARY RESOLUTIONS

1. "**THAT** (a) the execution of the Framework Agreement (as defined in the Circular) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and (b) the transactions contemplated under the Framework Agreement and the proposed annual caps for the R&D cooperation expenses as set out in the Circular be and are hereby approved."

2. "**THAT** the board of directors of the Company be and are hereby authorised to do all such acts and things and execute all documents as he/she considers necessary, desirable or expedient for the purpose of, or in connection with, the Review of the List of R&D cooperation projects or any matter related thereto."

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

Hubei, the PRC
1 December 2023

Notes:

1. In order to determine the list of Shareholders entitled to attend and vote at the EGM, the registers of members of the Company will be closed from Wednesday, 20 December 2023 to Wednesday, 27 December 2023, both days inclusive, during which period no transfer of Shares of the Company will be effected. Shareholders whose names appear on the registers of members of the Company on Wednesday, 20 December 2023 shall be entitled to attend and vote at the EGM. In order for the Shareholders to qualify to attend and vote at the EGM, all transfers accompanied by the relevant Share certificates must be lodged with the Company's Board office at Securities Department, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC for holders of domestic Shares of the Company, or the Company's H share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for holders of H shares of the Company by 4:30 p.m. on Tuesday, 19 December 2023 for registration.

2. Shareholders may, by completing the form of proxy of the Company, appoint one or more proxies to attend and vote at the EGM (or any adjournment thereof) on their behalf. A proxy needs not be a Shareholder.

3. Shareholders must use the form of proxy of the Company for appointing a proxy and the appointment must be in writing. The form of proxy must be signed by the relevant Shareholder or by a person duly authorized by the relevant Shareholder in writing ("**power of attorney**"). If the form of proxy is signed by the person authorized by the relevant Shareholder as aforesaid, the relevant power of attorney and other relevant documents of authorization (if any) must be notarized. If a corporate Shareholder appoints a person other than its legal representative to attend the EGM (or any adjournment thereof) on its behalf, the relevant form of proxy must be affixed with the company seal of the corporate Shareholder or duly signed by its director or any other person duly authorized by that corporate Shareholder of the Company as required by the articles of association of such company.

4. To be valid, the form of proxy and the relevant notarized power of attorney (if any) and other relevant documents of authorization (if any) as mentioned in note 3 above must be delivered to the Company's Board office at Securities Department, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC for holders of domestic shares of the Company, or the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for holders of H shares of the Company not less than 24 hours before the time appointed for the EGM (or any adjournment thereof) (i.e. before 10:00 a.m. on 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 form of proxy.

5. A Shareholder or his proxy should produce proof of identity when attending the EGM (or any adjournment thereof). If a corporate Shareholder's legal representative or any other person duly authorized by such corporate Shareholder attends the EGM (or any adjournment thereof), such legal representative or other person shall produce his proof of identity, and proof of designation as a legal representative or the valid authorization document (as the case may be).

6. The EGM (or any adjournment thereof) is expected to last less than one day. Shareholders or their proxies who attend the EGM (or any adjournment thereof) shall bear their own travelling, meal and accommodation expenses.

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

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

   Tel No.: 86-769-8176 8886 Fax No.: 86-769-8176 8866

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

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

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

   Tel No.: 852-2862-8555 Fax No.: 852-2865-0990

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

As at the date of this notice, the board 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 Xinfa as a non-executive director; and Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen as the independent non-executive directors.