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YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司

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

(Stock Code: 01558)

ANNOUNCEMENT

(1) CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED SUBSCRIPTION OF NEW DOMESTIC SHARES BY THE PARENT COMPANY;

AND

(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED SUBSCRIPTION OF NEW DOMESTIC SHARES BY THE PARENT COMPANY

Reference is made to the announcement of the Company dated 7 December 2016 in relation to, among others, the proposed issue of new Domestic Shares to the Parent Company. The Board is pleased to announce that on 16 December 2016, the Company and the Parent Company entered into the Capital Increase Agreement, pursuant to which, the Company has conditionally agreed to issue and allot, and the Parent Company has conditionally agreed to subscribe in cash for, an aggregate of 1,200,000 new Domestic Shares at the subscription price of RMB16.12 (equivalent to approximately HK\$18.05) per new Domestic Share.

LISTING RULES IMPLICATION

As at the date of this announcement, the Parent Company directly holds 225,000,000 Domestic Shares, representing approximately 49.91% equity interest in the Company and therefore is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Proposed Subscription constitutes a connected transaction of the Company.

The new Domestic Shares will be issued under the General Mandate granted by the Shareholders at the 2015 AGM. The Company will seek the independent Shareholders' approval by way of a special resolution at the EGM for the proposed issue of new Domestic Shares.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Board proposed to make certain amendments to the Articles of Association, to take effect subject to and upon completion of the Proposed Subscription in order to reflect the latest registered capital and shareholding structure of the Company as a result of the issue of the new Domestic Shares.

The proposed amendments to the Articles of Association are subject to the approval by the Shareholders by way of a special resolution at the EGM and registration and filing with the relevant PRC government authorities.

Further information in respect of the proposed amendments to the Articles of Association will be set out in the circular to be issued by the Company in connection with the Proposed Subscription.

EGM

The EGM will be convened to consider and, if thought fit, approve the Proposed Subscription and the proposed amendments to the Articles of Association. The Proposed Subscription and the proposed amendments to the Articles of Association will be proposed by way of special resolutions at the EGM. The Parent Company is required to abstain from voting in respect of the above resolutions to be proposed at the EGM.

GENERAL

A circular containing, among other things, details of the Proposed Subscription, and the proposed amendments to the Articles of Association will be despatched to Shareholders in due course.

The completion of the Proposed Subscription is subject to the satisfaction of the conditions precedent set out in the Capital Increase Agreement and this announcement. Accordingly, the Proposed Subscription may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their stockbroker, bank manager, solicitor or other professional adviser if they are in any doubt about their position and as to actions that they should take.

A. PROPOSED SUBSCRIPTION

Reference is made to the announcement of the Company dated 7 December 2016 (the “**Announcement**”) in relation to, among others, the proposed issue of new Domestic Shares to the Parent Company. The Board is pleased to announce that on 16 December 2016, the Company and the Parent Company entered into the Capital Increase Agreement.

(A) Principal Terms of the Capital Increase Agreement

Date: 16 December 2016

Parties: The Company (as the issuer); and
The Parent Company (as the subscriber)

Subject matter: 1,200,000 new Domestic Shares, with a par value of RMB1.00 each and an aggregate nominal value of RMB1,200,000. Such new Domestic Shares represent (i) approximately 0.533% of the existing issued Domestic Shares and 0.266% of the existing total issued share capital of the Company as at the date of this announcement; and (ii) approximately 0.531% of the issued Domestic Shares and 0.265% of the total issued share capital as enlarged by the Proposed Subscription of the Company.

Assuming there is no change to the total issued share capital of the Company other than the issue of the new Domestic Shares pursuant to the Capital Increase Agreement, immediately after the completion of the Proposed Subscription, the Parent Company will directly hold an aggregate of 226,200,000 Domestic Shares, representing 100% of the enlarged issued Domestic Shares and 50.04% of the enlarged total issued share capital of the Company, respectively.

Subscription price: RMB16.12 (equivalent to approximately HK\$18.05) per new Domestic Share, which was determined, after arm's length negotiations between the Company and the Parent Company, at such price representing a premium of 15% of the average closing price of the H Shares for the last 20 consecutive trading days up to and including the Last Trading Day. The exchange rate is HK\$1: RMB0.89315, being the average median exchange rate announced by the People's Bank of China on the Last Trading Day.

The subscription price represents:

- a premium of approximately 28.01% to the closing price of HK\$14.10 per H Share as quoted on the Stock Exchange on the date of the Capital Increase Agreement;
- a premium of 25.43% to the average closing price of approximately HK\$14.39 per H Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- a premium of approximately 22.37% to the average closing price of approximately HK\$14.75 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day; and
- a premium of approximately 15.04% to the average closing price of HK\$15.69 per H Share as quoted on the Stock Exchange as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day.

Conditions precedent: The Proposed Subscription is conditional upon the fulfilment of the following conditions:

- (i) the completion and fulfillment of necessary internal approval procedures by the Parent Company; and
- (ii) approval of the Proposed Subscription by the independent Shareholders at the EGM.

Delivery Date and completion date: The Delivery Date will be the date of the fulfillment of all the conditions precedent to the Proposed Subscription as set out above.

According to the Capital Increase Agreement:

- (i) the Parent Company shall transfer the total consideration of RMB19,344,000 (equivalent to approximately HK\$21,658,200) payable by it to the designated bank account of the Company within 30 business days since the Delivery Date; and
- (ii) the Company shall, upon receiving the total subscription price payable by the Parent Company, conduct necessary filings with relevant administration for industry and commerce authorities in relation to the change of the registered capital of the Company and the registration of the new Domestic Shares with CSDCC.

The date on which the Company completes the filings and registrations mentioned above shall be the date of the completion of the Proposed Subscription.

Arrangement in relation to retained profits: The undistributed retained profits of the Company before completion of the Proposed Subscription will be shared by the Shareholders registered in the Company's register of members after the completion of the Proposed Subscription in proportion to their respective shareholding in the Company.

Long stop date: If the Proposed Subscription is not completed within 12 months since the date of the approval at the EGM, the Capital Increase Agreement shall terminate automatically.

(B) Ranking of new Domestic Shares to be issued

The new Domestic Shares to be issued pursuant to the Capital Increase Agreement will rank, upon issue, *pari passu* in all respects with the existing Domestic Shares in issue at the time of allotment and issue of such new Domestic Shares.

(C) Application for listing of new Domestic Shares to be issued

No application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the new Domestic Shares to be issued and the new Domestic Shares to be issued will not be listed and traded on the Main Board of the Stock Exchange.

(D) Effect on Shareholding Structure of the Company

The following table illustrates the shareholding structure of the Company as at the date of this announcement and immediately after the completion of the Proposed Subscription (assuming no other changes to the total issued share capital of the Company prior to the completion of the Proposed Subscription):

	Class of Shares	As at the date of this announcement		Immediately after the completion of the Proposed Subscription	
		Number of Shares held	Percentage of total issued Shares	Number of Shares held	Percentage of total issued Shares
The Parent Company	Domestic Shares	225,000,000	49.91%	226,200,000	50.04%
H Shareholders	H Shares	225,822,850	50.09%	225,822,850	49.96%
Total issued Shares		450,822,850	100%	452,022,850	100%

(E) General Mandate

The new Domestic Shares will be issued and allotted by the Company pursuant to the General Mandate obtained at the 2015 AGM on 6 June 2016, under which the Directors are authorized to allot and issue up to 45,000,000 new Domestic Shares and 45,164,570 new H Shares, being 20% of the then aggregate number of Domestic Shares and H Shares in issue, respectively. As at the date of this announcement, the Company has not issued any Shares pursuant to the General Mandate.

(F) Use of proceeds

The proceeds from the issue of the new Domestic Shares are expected to be approximately RMB19,344,000 (equivalent to approximately HK\$21,658,200), which are intended to be used to supplement general working capital, including expense for educational promotion activities for the Company's current and future products.

(G) Reasons for and Benefit of the Proposed Subscription

As mentioned in the Announcement, the Parent Company intends to transfer its entire equity interest in the Company, representing approximately 49.91% domestic share shareholding interest, or approximately 50.04% domestic share shareholding interest upon completion of the Proposed Subscription in the Company, to Guangdong HEC Technology Holding Co., Ltd. (廣東東陽光科技控股股份有限公司) (“**Guangdong HEC**”), after the expiry of the 12-month lock-up period under Rule 10.08 of the Listing Rules (the “**Proposed Transfer**”).

Pursuant to the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》), the Parent Company will be subject to the income tax upon completion of Proposed Transfer. However, according to the Circular on Several Issues Concerning the Enterprise Income Tax Treatment of Corporate Restructuring (Cai. Shui [2009] No.59) (《財政部、國家稅務總局關於企業重組業務企業所得稅處理若干問題的通知》(財稅[2009]59號)) and Notice of Ministry of Finance and the State Administration of Taxation on Enterprise Income Tax Treatment Concerning Promoting Enterprise Restructuring (Cai Shui [2014] No.109) (《關於促進企業重組有關企業所得稅處理問題的通知》(財稅[2014]109號)), if the shareholding in the Company to be transferred by the Parent Company exceeds 50%, the Parent Company can apply for payment of such income tax at such later time when it disposes of the equity interest in Guangdong HEC and the amount of the income tax to be paid will be in such proportion equal to the number of the shares it disposed in the total number of shares it acquired pursuant to the Proposed Transfer.

Based on preliminary discussion and communication with the tax authorities, the Parent Company entered into the Capital Increase Agreement with the Company, pursuant to which, upon completion of the Proposed Subscription, the Parent Company will be interested in approximately 50.04% equity interest in the Company, and accordingly, the Parent Company can apply for payment of such income tax mentioned above at such later time when it disposes of the equity interest in Guangdong HEC in accordance with relevant PRC regulations.

The Company also believes that it will derive the following benefits from the Proposed Subscription:

- (a) the subscription price of the additional Domestic Shares represented a premium to the average closing price of H Shares of the Company, which is more favourable than the terms that the Company is likely to obtain from independent third party investors; and
- (b) the Company could use the proceeds from the Proposed Subscription to further develop its business.

The Directors (including the independent non-executive Directors) consider that the terms of the Proposed Subscription are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

(H) Fund Raising Activity of the Company in the Past 12 Months

The Company conducted the following fund raising activity through the issue of equity securities in the past 12 months immediately before the date of this announcement:

Date of announcement/prospectus	Fund raising activity	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
15 December 2015	90,132,000 H Shares issued by the Company under the global offering	approximately HK\$1,255.5 million	(a) approximately 48.2% of the net proceeds, or approximately HK\$605.6 million (RMB500 million), to construct a new oral formulation production plant; (b) approximately 13.6% of the net proceeds, or approximately HK\$170.2 million (RMB140.5 million), to construct a new insulin production plant; (c) approximately 28.2% of the net proceeds, or approximately HK\$354.1 million (RMB292.3 million) in promotional and marketing activities for the Company's current and future products, including educational promotion activities, advertisements and sponsorships, publishing marketing and promotional materials, expanding and establishing specialised teams for the Company's key products and conducting market research in relation to the Company's products; and (d) approximately 10% of the net proceeds, or approximately HK\$125.6 million (RMB103.7 million), to be used for working capital and general corporate purposes.	(a) approximately HK\$0.4 million (approximately RMB0.3 million) was used to construct a new oral formulation production plant; (b) approximately HK\$0.8 million (approximately RMB0.7 million) was used to construct a new insulin production plant; (c) approximately HK\$24.2 million (approximately RMB21.6 million) was used in promotional and marketing activities; (d) approximately HK\$90.8 million (approximately RMB81.1 million), was used for working capital and general corporate purposes.

Date of announcement/prospectus	Fund raising activity	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
17 January 2016	163,400 H Shares issued by the Company due to the exercise of the over-allotment option	approximately HK\$2.4 million	The Company intends to use the proceeds for the purposes as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 15 December 2015.	As at the date of this announcement, the proceeds have not been used. The proceeds will be used as intended.

Save as disclosed above, the Company did not conduct any fund raising activity through the issue of equity securities in the 12 months immediately before the date of this announcement.

(I) Information of the Parties

a) The Company

The Company is a pharmaceutical manufacturing company focusing on the development, manufacturing and sale of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases as well as cardiovascular diseases.

b) The Parent Company

The Parent Company, incorporated in China in 2004, is a large-scale chemical and biological pharmaceutical company. As at the date of this announcement, the Parent Company directly holds 49.91% of the total issued share capital of the Company. The principle business of The Parent Company and its subsidiaries (other than the Company) comprise (i) research of biological drugs and new drugs, (ii) production and sale of various APIs, and (iii) production and sale of pharmaceutical products overseas.

(J) Listing Rules Implications

As at the date of this announcement, the Parent Company directly holds 225,000,000 Domestic Shares, representing approximately 49.91% equity interest in the Company and therefore is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Proposed Subscription constitutes a connected transaction of the Company.

The new Domestic Shares will be issued under the General Mandate granted to the Board at the 2015 AGM. The Company will seek the independent Shareholders' approval by way of a special resolution at the EGM for the proposed issue of new Domestic Shares. The Parent Company will be required to abstain from voting on the resolution in respect of the Proposed Subscription at the EGM.

(K) Independent Board Committee and Independent Financial Adviser

The Independent Board Committee (comprising Mr. Tang Jianxin, Mr. Fu Hailiang and Mr. Lee Chi Ming) has been established to advise the independent Shareholders in connection with the Proposed Subscription. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders in connection with the Proposed Subscription.

B. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Board proposed to make certain amendments to the Articles of Association, to take effect subject to and upon completion of the Proposed Subscription in order to reflect the latest registered capital and shareholding structure of the Company as a result of the issue of the new Domestic Shares.

The proposed amendments to the Articles of Association are subject to approval by the Shareholders by way of a special resolution at the EGM, and the registration and filing with the relevant PRC government authorities.

Further information in respect of the proposed amendments to the Articles of Association will be set out in the circular to be issued by the Company in connection with the Proposed Subscription.

C. GENERAL

The EGM will be convened to consider and, if thought fit, approve the Proposed Subscription and the proposed amendments to the Articles of Association. The Parent Company is required to abstain from voting in respect of the resolutions approving the Proposed Subscription and the amendments to the Articles of Association to be proposed at the EGM.

A circular containing, among other things, details of the Proposed Subscription and the proposed amendments to the Articles of Association will be despatched to Shareholders in due course.

The completion of the Proposed Subscription is subject to the satisfaction of the conditions precedent set out in the Capital Increase Agreement and this announcement. Accordingly, the Proposed Subscription may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their stockbroker, bank manager, solicitor or other professional adviser if they are in any doubt about their position and as to actions that they should take.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

“2015 AGM”	the annual general meeting of the Company for the year of 2015, which was held on 6 June 2016
“Articles of Association”	the articles of association of the Company (as amended from time to time)

“Board”	the board of Directors of the Company
“Capital Increase Agreement”	the capital increase agreement entered into between the Parent Company and the Company on 16 December 2016
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, Macau and Taiwan
“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
“CSDCC”	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限公司), an enterprise incorporated in the PRC in 2001, with Shanghai Stock Exchange and Shenzhen Stock Exchange holding 50% and 50% of its equity interest, respectively
“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
“Delivery Date”	the date of the fulfillment of all the conditions precedent to the Proposed Subscription as set out in the Capital Increase Agreement
“EGM”	the extraordinary general meeting of the Company to be held on 6 February 2017 for the purpose of approving, among other things, the Proposed Subscription and the proposed amendments to the Articles of Association
“General Mandate”	the general mandate granted to the Board at the 2015 AGM in relation to the issue of up to 45,000,000 new Domestic Shares and 45,164,570 new H Shares, being 20% of the then aggregate number of Domestic Shares and H Shares in issue as of 6 June 2016 (being the date of passing the relevant resolution), respectively
“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 HK dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK dollar”, “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee established by the Company (comprising Mr. Tang Jianxin, Mr. Fu Hailiang and Mr. Lee Chi Ming) to advise the independent Shareholders in connection with the Proposed Subscription

“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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the independent Shareholders in connection with the Proposed Subscription
“Last Trading Day”	15 December 2016, being the last full trading day immediately prior to the date of the Capital Increase Agreement
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Parent Company”	HEC Pharm Co., Ltd.* (宜昌東陽光藥業股份有限公司), a company incorporated in the PRC on 12 January 2004 and the direct controlling shareholder of the Company
“Proposed Subscription”	the proposed subscription of 1,200,000 new Domestic Shares by the Parent Company pursuant to the Capital Increase Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the share(s) of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

In addition, the terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “percentage ratio(s)”, and “subsidiary” shall have the meanings ascribed to them under the Listing Rules.

* *The Chinese name(s) of PRC entities have been translated into English in this announcement for reference only. In the event of any discrepancies between the Chinese names of PRC entities and their respective English translations, the Chinese version shall prevail.*

By order of the Board
YiChang HEC ChangJiang Pharmaceutical Co., Ltd.
TANG Xinfu
Chairman

Hubei, the PRC
16 December 2016

As at the date of this announcement, the executive directors of the Company are JIANG Juncai, WANG Danjin and CHEN Yangui; the non-executive directors of the Company are TANG Xinfu, ZHU Yingwei and MO Kit; and the independent non-executive directors of the Company are TANG Jianxin, FU Hailiang and LEE Chi Ming.