THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in YiChang HEC ChangJiang Pharmaceutical Co., Ltd., you should at once hand this circular to the purchaser or transferee, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or 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)

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE TARGET ASSETS FROM SUNSHINE LAKE PHARMA

Financial Adviser to the Company

CICC 中金公司

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

Gram Capital Limited 嘉林資本有限公司

A letter from the Board is set out on pages 5 to 32 of this circular. A letter from Gram Capital containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 34 to 51 of this circular and a letter from the Independent Board Committee is set out on page 33 of this circular.

The revised notice of the 2019 4th EGM, together with its supplemental notice and the revised form of proxy for the appointment of proxy to attend the 2019 4th EGM, together with its supplemental form of proxy to the revised form of proxy were despatched to the Shareholders on 16 December 2019 and 3 January 2020 respectively. Whether or not you would attend the 2020 1st EGM, please fill in the relevant form of proxy according to relevant instructions and return it as soon as possible, and not less than 24 hours before the fixed time of holding the 2020 1st EGM, i.e. by 10:00 a.m. on Tuesday, 21 January 2020, in any event. The filled and returned relevant form of proxy will have no effect on your vote in person in the 2019 4th EGM or any other postponed meetings. Completion and delivery of the relevant form of proxy will not preclude you from attending and voting in person should you so wish.

6 January 2020

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In this circular, unless the context otherwise requires, the following terms and expression have the meanings set forth below:

"2019 4th EGM"	the 4th extraordinary general meeting of 2019 of the Company originally scheduled on 29 December 2019 to, among other things, consider and, if thought fit, approve the Proposed Acquisition
"2020 1st EGM"	renamed from 2019 4th EGM, the 1st extraordinary general meeting of 2020 of the Company to be held on 22 January 2020 to, among other things, consider and, if thought fit, approve the Proposed Acquisition
"Articles of Association"	the articles of association of the Company (as amended from time to time)
"Asset Valuation Report"	the asset valuation report prepared by CAA in respect of the Target Assets, which takes 31 July 2019 as the Benchmark Date
"Benchmark Date"	the benchmark date for the valuation of the Target Assets related to the Proposed Acquisition, being 31 July 2019
"Board"	the board of Directors of the Company
"CAA"	China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司), an independent valuer qualified in the PRC
"Company"	YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (宜昌東陽光長江藥業股份有限公司), a company established in the PRC on 11 May 2015 as a joint stock company
"Director(s)"	the director(s) of the Company
"drug license"	drug license indicates that drug production is in compliance with laws. The Drug Administration Law to be effective on 1 December 2019 states that "drugs to be sold within the PRC shall be approved by the drug regulators under the State Council and shall obtain drug licenses"

"Financial Adviser" or "CICCHKS"	China International Capital Corporation Hong Kong Securities Limited, the financial adviser of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee established by the Company (comprising Mr. TANG Jianxin, Mr. FU Hailiang and Mr. ZHAO Dayao, all being independent non-executive Directors) to advise the Independent Shareholders in connection with the Proposed Acquisition
"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) and being the independent financial adviser appointed by the Company to advise the Independent Board Committee and Independent Shareholders in connection with the Proposed Acquisition
"Independent Shareholder(s)"	Shareholders other than the Parent Company, and who are not involved in, or interested in the Proposed Acquisition
"Latest Practicable Date"	2 January 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange
"NMPA"	National Medical Products Administration
"Parent Company"	Guangdong HEC Technology Holding Co., Ltd. (廣東東陽光科技控股股份有限公司), a company incorporated in the PRC and the immediate controlling shareholder of the Company holding approximately 50.40% of the equity interests in the Company as at the date of this circular

"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 PRC and Taiwan
"Proposed Acquisition"	the proposed acquisition of the Target Assets from Sunshine Lake Pharma by the Company as contemplated under the Sale and Purchase Agreement and the same as amended by the Supplemental Agreement
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the agreement entered into between the Company and Sunshine Lake Pharma on 13 November 2019 in relation to, among other things, the acquisition of the Target Assets from Sunshine Lake Pharma by the Company
"Settlement Date"	the date on which the Target Assets are settled, as jointly determined by the Company and Sunshine Lake Pharma in writing after the Sale and Purchase Agreement becomes effective. From the Settlement Date, all rights, obligations and risks in respect of the Target Assets have been transferred to the Company
"Shareholder(s)"	the holder(s) of the ordinary share(s) of the Company
"Shenzhen HEC Industrial"	Shenzhen HEC Industrial Development Co., Ltd. (深圳市東陽光實業發展有限公司), a company incorporated in the PRC and holding directly and indirectly approximately 53.32% of the equity interests in the Parent Company, with approximately 27.97% of such equity interests being directly held as at the date of this circular
"Single Product"	any product of the Target Products held by Sunshine Lake Pharma
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Sunshine Lake Pharma"	Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司), a company incorporated in the PRC on 29 December 2003, a direct subsidiary of Yichang HEC Research Co., Ltd. (宜昌東陽光藥研發有限公司) and an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial

"Supplemental Agreement"	a supplemental agreement to the Sale and Purchase Agreement entered into between the Company and Sunshine Lake Pharma on 26 December 2019 to amend certain terms of the Sale and Purchase Agreement
"Target Assets"	Target Products and all interests, benefits attached and all rights legally entitled, and all obligations assumed in accordance with laws within the PRC thereon
"Target Products"	two products, including Rongliflozin L-Pyroglutamic Acid (焦谷氨酸榮格列淨) and Liraglutide (利拉魯肽)
"Valuation"	the valuation performed by CAA on the Target Assets
"%"	per cent

In this circular, unless the context otherwise requires, the terms "associate(s)", "connected person(s)", "connected transaction(s)" and "subsidiary(ies)" shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

** The English translation or transliteration of the Chinese name(s) in this circular, where indicated, is included for information purposes only, and should not be regarded as the official English name(s) of such Chinese name(s).*

YiChang HEC ChangJiang Pharmaceutical Co., Ltd.
宜昌東陽光長江藥業股份有限公司
(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 01558)

The Board of Directors:
Executive Directors:
Mr. JIANG Juncai
Mr. WANG Danjin
Mr. CHEN Yangui
Mr. LI Shuang

Non-executive Directors:
Mr. TANG Xinfa *(Chairman)*
Mr. Eddy HUANG

Independent Non-executive Directors:
Mr. TANG Jianxin
Mr. FU Hailiang
Mr. ZHAO Dayao

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, Sunlight Tower
No. 248 Queen's Road East
Wanchai,
Hong Kong

6 January 2020

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE TARGET ASSETS FROM SUNSHINE LAKE PHARMA

INTRODUCTION

We refer to the announcements published by the Company on 13 November 2019 and 26 December 2019 respectively in relation to the Proposed Acquisition. The purpose of this circular is to provide you with (i) further details of the Proposed Acquisition, (ii) the recommendation of the Independent Board Committee in relation to the Proposed Acquisition, (iii) a letter from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Acquisition, and (iv) other information required under the Listing Rules.

THE PROPOSED ACQUISITION

I. The Sale and Purchase Agreement and the Supplemental Agreement

1. Principal Terms

Date	13 November 2019
Parties	the Company (as the purchaser), and Sunshine Lake Pharma (as the vendor)
Target assets	Target Products and all interests, benefits attached and all rights legally entitled, and all obligations assumed in accordance with laws within the PRC thereon.
Conditions precedent	The Sale and Purchase Agreement becomes effective upon the following conditions precedent are satisfied: (i) the duly execution of the Sale and Purchase Agreement by both parties; (ii) the Sale and Purchase Agreement and the transactions contemplated thereunder being approved through the respective internal corporate approval procedures of both parties pursuant to the applicable laws and applicable Listing Rules including but not limited to the same being passed at the board meetings and general meetings of both parties; and (iii) the Sale and Purchase Agreement and the transactions contemplated thereunder being approved through the internal corporate approval procedures of the Parent Company pursuant to the applicable laws and applicable Listing Rules including but not limited to the same being passed at the board meeting and general meeting of the Parent Company. Save and except for the general meetings approving the Sale and Purchase Agreement and the transactions contemplated thereunder to be convened by the Parent Company and the Company, all conditions precedent have been satisfied.

Consideration and payment

The total consideration for the Target Assets is RMB2,057,000,000 (i.e. the total valuation of the Target Assets assessed in the Asset Valuation Report), which shall be paid by the Company to Sunshine Lake Pharma in the following manners:

(i) First instalment: The Company shall pay RMB1,028,500,000 (representing 50% of the total value of Single Products assessed in the Asset Valuation Report) to Sunshine Lake Pharma on a one-off basis within thirty (30) business days after the effective date of the Sale and Purchase Agreement.

(ii) Second instalment: The amount is RMB514,250,000 subject to payment conditions and the terms of liabilities for breach and special compensation provided herein. The Company shall pay the corresponding consideration to Sunshine Lake Pharma when any Single Product reaches a milestone in the clinical trial, details of which are as follows:

(1) The Company shall pay an amount equivalent to 7.5% of the value of a Single Product assessed in the Asset Valuation Report to Sunshine Lake Pharma after said Single Product has completed Phase III clinical trial (or a trial stage equivalent to Phase III clinical trial) and acquired the clinical trial data necessary for the application for drug license;

(2) The Company shall pay an amount equivalent to 7.5% of the value of a Single Product assessed in the Asset Valuation Report to Sunshine Lake Pharma after the application for drug license in respect of said Single Product has been submitted to NMPA;

(3) The Company shall pay an amount equivalent to 10% of the value of a Single Product assessed in the Asset Valuation Report to Sunshine Lake Pharma after the Company (or any entity designated by the Company) has been registered as the holder of drug marketing license in respect of said Single Product.

The Company shall pay the corresponding consideration to Sunshine Lake Pharma within thirty (30) business days after the foregoing conditions are fulfilled and Sunshine Lake Pharma having delivered the notice in accordance with (iv) below.

(iii) Final instalment: Subject to payment conditions and the terms of liabilities for breach and special compensation provided herein, the Company shall pay the final instalment of RMB514,250,000 (representing 25% of the total value of Single Products assessed in the Asset Valuation Report) in three batches to Sunshine Lake Pharma. The specific payment conditions, timing and amounts shall follow the principles below:

(1) When the annual total sales revenue generated by Target Assets reaches RMB1,500 million (value-added tax exclusive) or more for the first time in a full financial year (the "**First Up-to-expectation Financial Year**"), the Company shall pay a total of RMB102,850,000 (representing 5% of the total value of Single Products assessed in the Asset Valuation Report) to Sunshine Lake Pharma within thirty (30) business days after the issuing of audited financial statements in respect of that financial year and the receiving of the relevant notice which Sunshine Lake Pharma has delivered in accordance with (iv) below;

(2) Subject to the fulfilment of the payment condition as set out in (1) above, when the annual total sales revenue generated by Target Assets reaches RMB2,500 million (value-added tax exclusive) or more for a full financial year after the end of the First Up-to-expectation Financial Year (the "**Second Up-to-expectation Financial Year**"), the Company shall pay a total of RMB205,700,000 (representing 10% of the total value of Single Products assessed in the Asset Valuation Report) to Sunshine Lake Pharma within thirty (30) business days after the issuing of audited financial statements in respect of that financial year and the receiving of the notice which Sunshine Lake Pharma has delivered in accordance with (iv) below;

(3) Subject to the fulfilment of the payment conditions as set out in (1) and (2) above, when the annual total sales revenue generated by Target Assets reaches RMB3,500 million (value-added tax exclusive) or more for a full financial year after the end of the Second Up-to-expectation Financial Year, the Company shall pay a total of RMB205,700,000 (representing 10% of the total value of Single Products assessed in the Asset Valuation Report) to Sunshine Lake Pharma within thirty (30) business days after the issuing of audited financial statements in respect of that financial year and the receiving of the notice which Sunshine Lake Pharma has delivered in accordance with (iv) below.

Basis of performance

According to the Asset Valuation Report issued by CAA, Rongliflozin L-Pyroglutamic Acid is expected to obtain the drug license and generate revenues in 2022, and Liraglutide is expected to obtain the drug license and generate revenues in 2023. The table below sets forth details on revenue forecast to be generated by the two products (the "**Revenue Forecast**"):

In RMB million

Forecast year	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rongliflozin L-Pyroglutamic Acid	10	40	130	350	810	1,780	2,930	4,020	4,590
Liraglutide	0.0	20	40	110	240	370	520	480	410
total	10	50	170	460	1,050	2,150	3,450	4,500	5,000

Based on the Revenue Forecast, the Company and Sunshine Lake Pharma agreed, after negotiation, that the revenue targets in respect of the remaining three payment installments for the Target Assets should be RMB1,500 million, RMB2,500 million and RMB3,500 million, respectively, based on the followings: (1) according to the Revenue Forecast, revenue targets for the remaining three instalments are expected to reach in 2027, 2028 and 2029, respectively, and the Company expected to have a time gap of approximately eight years between the First Up-to-expectation Financial year and the Settlement Date. It enables the Company to delay payment by setting up such revenue performance targets; and (2) according to the Revenue Forecast, the Target Assets will start to generate considerable and steadily-growing revenues the year prior to the First Up-to-expectation Financial Year (i.e. the year of 2026) and payment conditions for the last two remaining instalments are the targets that the Target Assets will realize rapid revenue growth. Therefore, the revenue performance target is commercially reasonable and in the interest of the Company, and thus is a reasonable commercial arrangement.

(iv) For the progress payments for the second instalment in (ii) and the final instalment in (iii) as stated above, Sunshine Lake Pharma is obliged to deliver written notice to the Company within ten (10) business days after the payment conditions have been fulfilled, requiring the Company to pay the corresponding consideration; otherwise, Sunshine Lake Pharma is deemed to have given consent to the payment delay of the Company. If the Company fails to make the payment within thirty (30) business days after receiving the payment notice delivered by Sunshine Lake Pharma, the Company is deemed in breach of the Sale and Purchase Agreement and shall assume the liabilities in accordance with the terms of liabilities for breach and special compensation therein.

Basis of consideration

The consideration was determined after arm's length negotiation between the Company and Sunshine Lake Pharma, after considering the total Valuation of Target Assets of RMB2,057,000,000 assessed in the Asset Valuation Report.

Termination

The Sale and Purchase Agreement shall be terminated upon occurrence of any of the following events:

(i) Both parties terminate the agreement by negotiation before the Settlement Date.

(ii) The Proposed Acquisition cannot be fulfilled due to force majeure or other objective causes other than those related to both parties of Sale and Purchase Agreement before the Settlement Date.

(iii) It is impossible to fulfil and complete the Sale and Purchase Agreement due to one party to the Sale and Purchase Agreement in material breach of the Sale and Purchase Agreement or applicable laws. In such case, the other party has the right to unilaterally terminate the Sale and Purchase Agreement by a written notice.

Liabilities for breach and special compensation

(i) If the Company fails to pay the consideration in accordance with the Sale and Purchase Agreement without any reasonable cause, the Company shall pay Sunshine Lake Pharma a penalty fee equivalent to 0.04% of the consideration payable on a daily basis (except that Sunshine Lake Pharma has breached the said agreement), and Sunshine Lake Pharma has the right to delay the schedule of performing the next obligations accordingly.

(ii) If Sunshine Lake Pharma breaches relevant representations and warranties in the Sale and Purchase Agreement, or if actions of Sunshine Lake Pharma in the course of performing or observing any covenants, undertakings, conditions, obligations or requirements in the Sale and Purchase Agreement constitute breach of said and such breach lasts for thirty (30) business days after the earlier of the following events: (i) Sunshine Lake Pharma realizes that it has breached the Sale and Purchase Agreement (or being proved that it is an intentional breach); and (ii) the Company has delivered a written notice in respect of the breach to Sunshine Lake Pharma, the Company has the right to terminate the Sale and Purchase Agreement, and Sunshine Lake Pharma shall return all transaction considerations already paid to the Company and pay the Company a penalty fee not less than 20% of the transaction considerations already paid (the "**Penalty Fee**"). The Company reserves the right to claim against the losses that it suffers for the amount that exceeds the Penalty Fee. In the event that Sunshine Lake Pharma does not owe to the Company, the Company shall return all the Target Assets (except for those otherwise agreed in the Sale and Purchase Agreement), and the Sale and Purchase Agreement shall be terminated.

(iii) If, for any reason, (1) NMPA delivers a notice that disapproves the drug license and the drug marketing license for a certain Target Product or the change or registration of the holder of drug marketing license as the Company (or any entity designated by the Company), or (2) the holder of drug marketing license in respect of a certain Target Product has not been changed to or registered as the Company (or any entity designated by the Company) on 31 December 2024 or before, the Company shall not pay any outstanding transaction consideration related to said Target Product for which the drug license or the drug marketing license has not been obtained or the holder of drug marketing license has not been changed to or registered as the Company (or any entity designated by the Company) after the earlier date of (1) and (2) stated above. Furthermore, Sunshine Lake Pharma shall return the amounts already paid for said Target Product in full to the Company within thirty (30) business days from (i) the date when the NMPA notice that disapproves the drug license and the drug marketing license for that Target Product or the change or registration of the holder of drug marketing license as the Company (or any entity designated by the Company) has been received or (ii) 31 December 2024 (whichever is earlier), and shall pay the Company a sum of interest for the period of taking possession of such amounts, which is based on the latest loan prime rate (LPR) announced by National Interbank Funding Center on the date when this agreement is signed. In the event of a refundable condition as specified herein, the Company shall not return any of Target Assets to Sunshine Lake Pharma (no matter whether Sale and Purchase Agreement has been terminated or not), and the Company (or any entity designated by the Company) has the right to continue to enjoy all interests related to all Target Assets within the scope of the Sale and Purchase Agreement.

(iv) Unless otherwise specified in the Sale and Purchase Agreement, any party to the Sale and Purchase Agreement that has breached the representations, warranties, undertakings and other obligations as stated in the Sale and Purchase Agreement, which has caused losses to the other party, shall fully compensate the said party against all the losses that have caused.

To secure all the monetary obligations of Sunshine Lake Pharma under the Sale and Purchase Agreement and the Supplemental Agreement, Shenzhen HEC Industrial (the controlling Shareholder of the Company and also a shareholder of Sunshine Lake Pharma) agreed to provide a financial guarantee in favor of the Company, pursuant to which Shenzhen HEC Industrial unconditionally, independently and irrevocably agreed to be jointly responsible for any amount due and payable by Sunshine Lake Pharma under the Sale and Purchase Agreement and the Supplemental Agreement for a term of two years, starting from the date when any amount is due and payable by Sunshine Lake Pharma under the Sale and Purchase Agreement and the Supplemental Agreement.

2. The Supplemental Agreement

On 26 December 2019, the Company and Sunshine Lake Pharma entered into a Supplemental Agreement, pursuant to which the terms of the Sale and Purchase Agreement were amended as follows:

Original Terms	Proposed Amendment to the Terms
The total consideration for the Target Assets is RMB2,057,000,000 (i.e. the total valuation of the Target Assets reached by the Asset Valuation Report), which shall be paid by the Company to Sunshine Lake Pharma in the following manners:	The total consideration for the Target Assets is RMB~~2,057,000,000~~1,645,600,000 (i.e. 80% of the total valuation of the Target Assets reached by the Asset Valuation Report) and the consideration of Rongliflozin and Liraglutide representing 80% of the valuation of Single Products reached by the Asset Valuation Report are RMB1,532,000,000 and RMB113,600,000, respectively, which shall be paid by the Company to Sunshine Lake Pharma in the following manners:
First Instalment: The Company shall pay RMB1,028,500,000 (representing 50% of the total value of Single Products reached by the Asset Valuation Report) to Sunshine Lake Pharma on a one-off basis within thirty (30) business days after the effective date of the Sale and Purchase Agreement.	First Instalment: RMB~~1,028,500,000~~ 550,000,000 ~~(representing 50% of the total value of Single Products reached by the Asset Valuation Report~~ (the consideration for a Single Product under each instalment shall be calculated in proportion to the consideration of the Single Products as a percentage of the transaction, the same is applicable to the below and please see the annex below for the value of Single Products reached by the Asset Valuation Report and the transaction prices thereof) shall be paid by the Company to Sunshine Lake Pharma on a one-off basis within thirty (30) business days after the effective date of the Sale and Purchase Agreement. The payment time shall be subject to the time of bank remittance.

Original Terms	Proposed Amendment to the Terms
Second instalment: The amount is RMB514,250,000 subject to payment conditions provided herein and the terms of liabilities for breach and special compensation. The Company shall pay the corresponding consideration to Sunshine Lake Pharma when any Single Product reaches a milestone in the clinical trial, details of which are as follows: (1) The Company shall pay an amount equivalent to 7.5% of the value of a Single Product reached by the Asset Valuation Report to Sunshine Lake Pharma after said Single Product has completed Phase III clinical trial (or a trial stage equivalent to Phase III clinical trial) and acquired the clinical trial data necessary for the application for drug license; (2) The Company shall pay an amount equivalent to 7.5% of the value of a Single Product reached by the Asset Valuation Report to Sunshine Lake Pharma after the application for drug license in respect of said Single Product has been submitted to NMPA; (3) The Company shall pay an amount equivalent to 10% of the value of a Single Product reached by the Asset Valuation Report to Sunshine Lake Pharma after the Company (or any entity designated by the Company) has been registered as the holder of drug marketing license in respect of said Single Product. The Company shall pay the corresponding consideration to Sunshine Lake Pharma within thirty (30) business days after the foregoing conditions are fulfilled and Sunshine Lake Pharma having delivered the notice in accordance with (iv) below.	Second instalment : The amount is RMB~~514,250,000~~ 246,840,000 subject to payment conditions provided herein and the terms of liabilities for breach and special compensation. The Company shall pay the corresponding consideration to Sunshine Lake Pharma when any Single Product reaches a milestone in the clinical trial, details of which are as follows: (1) The Company shall pay an amount equivalent to ~~7.5% of the value of a Single Product reached by the Asset Valuation Report~~ 5% of the consideration of a Single Product to Sunshine Lake Pharma after said Single Product has completed Phase III clinical trial (or a trial stage equivalent to Phase III clinical trial) and acquired the clinical trial data necessary for the application for drug license; (2) The Company shall pay an amount equivalent to ~~7.5% of the value of a Single Product reached by the Asset Valuation Report~~ 5% of the consideration of a Single Product to Sunshine Lake Pharma after the application for drug license in respect of said Single Product has been submitted to NMPA; (3) The Company shall pay an amount equivalent to ~~10% of the value of a Single Product reached by the Asset Valuation Report~~ 5% of the consideration of a Single Product to Sunshine Lake Pharma after the Company (or any entity designated by the Company) has been registered as the holder of drug marketing license in respect of said Single Product. For detailed consideration of Single Products, please refer to the annex. The Company shall pay the corresponding consideration to Sunshine Lake Pharma with in thirty (30) business days after the foregoing conditions are fulfilled and Sunshine Lake Pharma having delivered the notice in accordance with (iv) below. The payment time shall be subject to the time of bank remittance.

Original Terms	Proposed Amendment to the Terms
Final instalment: Subject to payment conditions herein and the terms of liabilities for breach and special compensation, the Company shall pay the final instalment of RMB514,250,000 (representing 25% of the total value of Single Products reached by the Asset Valuation Report) in three batches to Sunshine Lake Pharma. The specific payment conditions, timing and amounts shall follow the principles below: (1) When the annual total sales revenue generated by Target Assets reaches RMB1,500 million (value-added tax exclusive) or more for the first time in a full financial year (the "First Up-to-expectation Financial Year"), the Company shall pay a total of RMB102,850,000 (representing 5% of the total value of Single Products reached by the Asset Valuation Report) to Sunshine Lake Pharma within thirty (30) business days after the issuing of audited financial statements in respect of that financial year and the receiving of the notice which Sunshine Lake Pharma has delivered in accordance with (iv) below; (2) Subject to the fulfilment of the payment condition as set out in (1) above, when the annual total sales revenue generated by Target Assets reaches RMB2,500 million (value-added tax exclusive) or more for a full financial year after the end of the First Up to-expectation Financial Year (the "Second Up-to-expectation Financial Year"), the Company shall pay a total of RMB205,700,000 (representing 10%of the total value of Single Products reached by the Asset Valuation Report) to Sunshine Lake Pharma within thirty (30) business days after the issuing of audited financial statements in respect of that financial year and the receiving of the notice which Sunshine Lake Pharma has delivered in accordance with (iv) below;	Final instalment and compensation arrangement: Subject to payment conditions herein and the terms of liabilities for breach and special compensation, the Company shall pay the final instalment of up to RMB~~514,250,000~~ 848,760,000 ~~(representing 25% of the total value of Single Products reached by the Asset Valuation Report) in three batches~~ to Sunshine Lake Pharma depending on the accumulated operating income of the Target Assets for the three years of 2027, 2028 and 2029 or any three consecutive years prior to 2029 or Sunshine Lake Pharma shall return relevant payments to the Company in a lump sum. The specific payment conditions, timing and amounts shall follow the principles below: (1) ~~When the annual total sales revenue generated by Target Assets reaches RMB1,500 million (value-added tax exclusive) or more for the first time in a full financial year (the "First Up to-expectation Financial Year")~~ If the accumulated operating income of the Target Assets for the three years of 2027, 2028 and 2029 or any three consecutive years prior to 2029 reaches RMB10,097,000,000 or above (subject to the audited financial statements), the Company shall pay ~~a total of RMB102,850,000 (representing 5% of the total value of Single Products reached by the Asset Valuation Report)~~ the final instalment of RMB848,760,000 to Sunshine Lake Pharma in a lump sum. The Company shall pay the relevant amount to Sunshine Lake Pharma within thirty (30) business days after the issuing of audited financial statements ~~in respect of that financial year~~ and the receiving of the notice which Sunshine Lake Pharma has delivered in accordance with (iv) below. The payment time shall be subject to the time of bank remittance;

Original Terms	Proposed Amendment to the Terms
	~~(2) Subject to the fulfilment of the payment condition as set out in (1) above, when the annual total sales revenue generated by Target Assets reaches RMB2,500 million (value-added tax exclusive) or more for a full financial year after the end of the First Up-to-expectation Financial Year (the "Second Up-to-expectation Financial Year"), the Company shall pay a total of RMB205,700,000 (representing 10%of the total value of Single Products reached by the Asset Valuation Report) to Sunshine Lake Pharma within thirty (30) business days after the issuing of audited financial statements in respect of that financial year and the receiving of the notice which Sunshine Lake Pharma has delivered in accordance with (iv) below.~~ ~~Subject to the fulfilment of the payment conditions as set out in (1) and (2) above, when the annual total sales revenue generated by Target Assets reaches RMB3,500 million (value-added tax exclusive) or more for a full financial year after the end of the Second Up-to-expectation Financial Year, the Company shall pay a total of RMB205,700,000 (representing 10% of the total value of Single Products reached by the Asset Valuation Report) to Sunshine Lake Pharma within thirty (30) business days after the issuing of audited financial statements in respect of that financial year and the receiving of the notice which Sunshine Lake Pharma has delivered in accordance with (iv) below.~~ (2) If the accumulated operating income of the Target Assets for the three years of 2027, 2028 and 2029 or any three consecutive years prior to 2029 fails to reach RMB10,097,000,000 (subject to the audited financial statements), the amount of final instalment that shall be paid by the Company to Sunshine Lake Pharma or (as the case may be) the relevant amount that shall be returned by Sunshine Lake Pharma to the Company is as follows:

Original Terms	Proposed Amendment to the Terms
(3) Subject to the fulfilment of the payment conditions as set out in (1) and (2) above, when the annual total sales revenue generated by Target Assets reaches RMB3,500 million (value-added tax exclusive) or more for a full financial year after the end of the Second Up-to-expectation Financial Year, the Company shall pay a total of RMB205,700,000 (representing 10% of the total value of Single Products reached by the Asset Valuation Report) to Sunshine Lake Pharma within thirty (30) business days after the issuing of audited financial statements in respect of that financial year and the receiving of the notice which Sunshine Lake Pharma has delivered in accordance with (iv) below.	Final instalment that shall be paid by the Company to Sunshine Lake Pharma = RMB1,645,600,000 × accumulated operating income for years of 2027, 2028 and 2029 ÷ RMB10,097,000,000 – RMB796,840,000 (a) If the value arrived at using the above formula is positive, the Company shall pay the final instalment to Sunshine Lake Pharma within thirty (30) business days after the issuing of relevant audited financial statements and the receiving of the notice which Sunshine Lake Pharma has delivered in accordance with (iv) below. The payment time shall be subject to the time of bank remittance;

Original Terms	Proposed Amendment to the Terms
	(b) If the value arrived at using the above formula is negative, the Company is not required to pay the final instalment to Sunshine Lake Pharma, and Sunshine Lake Pharma shall return payments to the Company within thirty (30) business days after the issuing of relevant audited financial statements and the receiving of the written notice from the Company. The amount to be returned by Sunshine Lake Pharma to the Company equals to the absolute value of the value arrived at using the above formula and it is required to pay the Company a sum of interest for the period of taking possession of such amounts, which is based on the latest loan prime rate (LPR) announced by National Interbank Funding Center on the date when the Sale and Purchase Agreement was signed. The payment time shall be subject to the time of bank remittance. In case of the circumstances under this clause in which it is required to return payments, the Company is not required to return any Target Assets to Sunshine Lake Pharma (regardless of whether the Sale and Purchase Agreement is terminated) and the Company (or the entity designated by the Company) is entitled to further enjoy all the interests of all the Target Assets within the scope under the Sale and Purchase Agreement.

<table>
<tr><th>Original Terms</th><th>Proposed Amendment to the Terms</th></tr>
<tr><td></td><td><u>Annex</u>
<table>
<tr><th><u>No.</u></th><th><u>Drug name</u></th><th><u>Appraised value (RMB)</u></th><th><u>Transaction price (RMB)</u></th></tr>
<tr><td><u>1</u></td><td><u>Rongliflozin L-Pyroglutamic Acid</u></td><td><u>1,915,000,000</u></td><td><u>1,532,000,000</u></td></tr>
<tr><td><u>2</u></td><td><u>Liraglutide</u></td><td><u>142,000,000</u></td><td><u>113,600,000</u></td></tr>
<tr><td colspan="2"><u>Total</u></td><td><u>2,057,000,000</u></td><td><u>1,645,600,000</u></td></tr>
</table></td></tr>
<tr><td>The consideration was determined after arm's length negotiation between the Company and Sunshine Lake Pharma, after considering the total valuation of Target Assets of RMB2,057,000,000 reached by the Asset Valuation Report.</td><td>The consideration was determined after arm's length negotiation between the Company and Sunshine Lake Pharma,~~ after considering~~ <u>with reference to the result of</u> the total valuation of Target Assets of RMB2,057,000,000 reached by the Asset Valuation Report. <u>Upon full negotiation by both parties, the transaction price of the Target Assets held by Sunshine Lake Pharma shall be RMB1,645,600,000, i.e. 80% of the valuation of the Target Assets.</u></td></tr>
</table>

Save as disclosed above, all the other terms of the Sale and Purchase Agreement shall remain unchanged and fully valid.

3. Principal Assumptions of the Valuation

The Company has engaged CAA to perform the Valuation in respect of the Target Assets. The scope of the Valuation includes, among others, the technology, standard, statistics, approvals and registration information, which are related to the know-hows of the Target Products and other relevant intangible assets in relation to the production of the Target Products.

As the Valuation was prepared using the discounted cash flow method under the income approach, the Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules. Accordingly, the Company is subject to the requirements under Rule 14.62 of the Listing Rules.

The Valuation was performed based on the following principal assumptions:

(i) General assumptions

- transaction assumption: assuming all assets to be valued are in the course of transaction and the Valuation has been conducted by the asset valuer in a simulated market based on the terms of the transaction in relation to the assets to be valued;

- open market assumption: assuming each of the buyer and the seller of the assets traded or proposed to be traded on the market is offered with equal opportunity and time to access to sufficient market information so as to make a rational decision in respect of the function, usage and price of the assets; and

- specific usage purpose assumption: assuming the Company will use the Target Assets in specified usage and purpose without material changes in the foreseeable future.

(ii) Special assumptions

- the basic assumption of the Valuation was based on the specific Valuation purpose as set out in the Valuation report;

- there will be no material changes in the relevant prevailing laws, regulations or macro-economic situations of the PRC, and there will be no unforeseeable material changes in the external economic environments such as interest rate, taxation basis and rate or policy levies;

- Sunshine Lake Pharma had or will have full titles over the Target Assets as at the Valuation date or after the Valuation date. The Target Assets and the Proposed Acquisition are in compliance with relevant laws and regulations and will not infringe any lawful interests of other person;

- related basic information and financial information provided by Sunshine Lake Pharma and YiChang HEC are true, accurate and complete, which include but are not limited to IMS statistics on relevant drugs, intellectual

property certificates within the scope of transactions, financial vouchers on relevant historical input, clinical approval information for drugs, audit reports, financial statements and account balance statements, profit forecast data (profit forecast tables, follow-up input and production input plans, etc.) and forecast explanations, industry research reports, clinical applications of similar drugs, etc.;

- the financial statements and transaction data of comparable companies referred by the valuer are true and reliable, which include assets and liabilities, operating gains and losses for historical years;

- the Valuation only covered the scope set out in the asset valuation application list submitted by the Company and Sunshine Lake Pharma without considering any contingent asset or liability that is not set out in such list provided by the Company or Sunshine Lake Pharma;

- assuming the approval from the NMPA for the Target Products will be obtained by Sunshine Lake Pharma and manufacturing and sale of the Target Products will be commenced as estimated; and

- assuming Target Assets will generate evenly distributed net cashflow during the year.

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

4. Reasons for and Benefits of the Proposed Acquisition

The Company is a PRC pharmaceutical manufacturing company that focuses on the research and development, manufacturing and sale of pharmaceutical products.

Sunshine Lake Pharma (being a subsidiary of Yichang HEC Research Co., Ltd. (宜昌東陽光藥研發有限公司)) is a member of the HEC Research Group, which is one of the leading pharmaceutical research institutions in the PRC, with over 1,600 research fellows, including experts selected to the PRC government's "National 1,000 People Plan" (國家"千人計劃") and "Young Leadership Programme" ("青年領軍人物"). Sunshine Lake Pharma has also been recognised by Ministry of Human Resources and Social Security and National Post-Doctorate Committee (全國博士後管委會) as a Post-Doctoral Science and Research Station (博士後科研工作站).

As disclosed in the prospectus issued by the Company on 15 December 2015 (the "**Prospectus**"), the Company has entered into a strategic cooperation agreement with Shenzhen HEC Industrial, pursuant to which, the Company has a pre-emptive right to acquire the right to manufacture and sell new pharmaceutical products being developed by HEC Research Group (including, where applicable, the transfer of the related intellectual property rights and technology relating to such products).

The Target Products are as follows:

Target Products	Remarks
Rongliflozin L-Pyroglutamic Acid (焦谷氨酸榮格列淨)	a national Class 1 innovative drug, functioning as sodium-glucose linked transporter-2 (SGLT-2) inhibitor, intended for the treatment of Type 2 Diabetes and in the preparation work for Phase III clinical trial.
Liraglutide (利拉魯肽)	a biological agent, functioning as glucagon-like peptide-1 (GLP-1) receptor agonist, intended for the treatment of Type 2 Diabetes and in the preparation work for Phase I clinical trial and Phase III clinical trial, which will be conducted simultaneously.

The Target Products shall follow the guideline Article 36 and Article 50 as set forth in the Provisions for Drug Registration (the draft version for public consultation) (《藥品註冊管理辦法》徵求意見稿), being effective in December 2019 and the recommendation of Center for Drug Evaluation, NMPA ("**CDE**") (國家藥品監督管理局藥品審評中心) on approval for clinical trials of Rongliflozin L-Pyroglutamic Acid and Liraglutide. The title of Article 36 of the Provisions for Drug Registration is the complete path for application for marketing in respect of new drug application ("**NDA**"), which states that upon determining quality standards after completion of relevant researches on pharmacy, pharmacology, toxicology, and clinical trials of drugs that support the registration of drugs for marketing and completing the commercial-scale production process verification and preparations for receiving on-site inspections, the applicant may submit an application for registration of the drugs for marketing to the Center for Drug Evaluation of NMPA, and submit relevant research materials in accordance with the requirements of application materials; the Center for Drug Evaluation of NMPA will conduct a formal review on the application materials, and will issue a Notice of Acceptance for the materials that meet requirements or a Notice of No Acceptance or a Notice of Supplementary Information for the materials that do not meet requirements and give the reasons therefor.

The title for Article 50 of the Provisions for Drug Registration is the interface between the on-site inspection at production site of the drugs registered for marketing and the review in respect of good manufacturing practices ("**GMP**") before marketing, which states that for innovative drugs, modified new drugs, and biological products, on-site inspection shall be conducted at the production site of the drugs to be registered. When the applicant is subject to the on-site inspection at the production site of the drugs to be registered, the applicant shall apply to the local provincial bureau for simultaneous GMP review prior to marketing; for the applicant which has obtained the production license within the corresponding production scope and has products of the same dosage available on the market, the simultaneous GMP review prior to marketing may not be performed.

If approved for marketing, Rongliflozin L-Pyroglutamic Acid is a 1.1-class new drug and requires Phase I, Phase II and Phase III clinical trials, and Liraglutide is biosimilar and requires Phase I and Phase III clinical trials. The two products shall undergo the following processes prior to obtaining drug licenses and commencing commercial production.

	Rongliflozin	**Liraglutide**
Pharmacy aspect	Study on production process optimization, which is expected to be completed in 2021; Quality control study, which is expected to be completed in 2021; Stability study, which is expected to be completed in 2020~2023; Process verification, which is expected to be completed in 2021; Applying for marketing and obtaining marketing permit, such application expected to make in October 2021 and the marketing permit is expected to be obtained in 2021 or by the end of 2022; and GMP review, which is expected to be completed in 2022.	Study on production process optimization (completed); Quality control study (completed); Stability study, which is partially completed and is expected to be fully completed in 2022; Process verification, which is expected to be completed in 2022; Applying for marketing, which is expected to be completed in 2022; GMP review, which is expected to be completed in 2023; and Obtaining marketing permit, which is expected to be completed in 2023.

	Rongliflozin	**Liraglutide**
Non-clinical aspect	Reproductive toxicity, which is expected to be completed in December 2020; Repeated administration toxicity (i.e. 6-month chronic toxicity test having been completed for rats and 9-month chronic toxicity test having been completed for dogs); and Carcinogenicity study, which is expected to be completed in 2022.	None
Clinical aspect	Pharmacokinetics ("**PK**") study, which is expected to be completed in 2021; Phase III clinical trial study, which is expected to be completed in June 2022; and Production with interim data, which is expected to start in October 2021.	PK comparison test with the original ground medicine as the comparable preparation, adopting the equivalence trial design (Phase I clinical trial), which is expected to be completed in 2020); and Clinical trial with comparison with the original ground medicine, adopting the equivalence trial design (Phase III clinical trial), which is expected to be completed in 2022.

The Company will assume the subsequent development costs, such as research and development expense, after completion of the Proposed Acquisition. The estimated subsequent research and development expense and production spending in respect of Rongliflozin L-Pyroglutamic Acid and Liraglutide are set forth in the table below. The accumulated investment expense for the next five years is estimated to be approximately RMB316 million.

In RMB'0,000

Year	Rongliflozin L-Pyroglutamic Acid	Liraglutide	Sub-total
August to December 2019	5,275.00	650.00	5,925.00
2020	9,150.00	5,225.00	14,375.00
2021	6,650.00	2,745.00	9,395.00
2022	0.00	1,080.00	1,080.00
2023	0.00	860.00	860.00
Total	21,075.00	10,560.00	31,635.00

The total subsequent production spending is estimated to be approximately RMB276 million by 2023 when the products are put into production, including RMB89 million for land and plant construction expense and RMB187 million for machinery and equipment expense.

The forecast of research and development expenses and subsequent spending is based on the relevant clinical trial plan and the reasonable estimate of similar projects. Actual research and development expenses and subsequent production spending are related to specific labor costs, drug costs for clinical trial, costs for production construction and other factors, and may be different from the estimated costs.

The Company has decided to acquire the Target Products from Sunshine Lake Pharma due to the following reasons: (i) the Target Products have distinctive medical functions, currently enjoying a leading position in China's market and possess great market potential; (ii) the Company has developed the second and third generation insulin and the DPP-4 inhibitor in the field of diabetes treatment. Although the Target Products are still in the clinical trial stage, the research and development has been reported in smooth progress, and thus the Proposed Acquisition at such timing will help the Company to improve the resource allocation in the field of diabetes treatment and to maximize the synergy so as to make arrangement in advance for the production and marketing of products intended for reducing blood glucose and to make full preparation for the subsequent production and launch in the market; (iii) the Target Products will expand the Company's product portfolio; and when approved for marketing, they will further enhance the Company's comprehensive strength and improve its revenue structure, which is in line with the Company's long-term development strategies; (iv) through the Proposed Acquisition, the Company can avoid substantial investment into drug research and development and lower the risk of research failure; (v) based on the current valuation and assumption that the discount rate remains unchanged, the valuation of Target Products is

estimated to increase significantly throughout forecast period. If the Proposed Acquisition is initiated after revenues of Target Products reach a certain level, the Company will be subject to a greater capital pressure. The Company currently maintains a continuously improving performance, is in a sound financial position and has sufficient working capital. The payment of consideration for the Proposed Acquisition is made by way of instalments, which neither will subject the Company to a greater capital pressure in the short term nor will have adverse impact on the Company's financial position due to the support of continuously improving performance of the Company in the long term; and (vi) to mitigate the risks which the Company will face due to the failure of Target Products to launch in the market or the lower-than-expected sales of Target Products, the Company and Sunshine Lake Pharma have agreed to settle the consideration by way of the instalment payment and on the terms in relation to the special compensation, the details of which are set out in the paragraph headed "Principal terms – the Sale and Purchase Agreement and the Supplemental Agreement – Proposed Acquisition " of this letter. Directors are of the view that the said terms and mechanism is established in the interest of the Company.

The Company has engaged a third-party valuer, CAA, to determine the market value of the Target Assets to ensure the consideration payable by the Company is fair and reasonable and in the best interest of the Shareholders.

The Board is of the view that the consideration for the Proposed Acquisition (determined based on the Asset Valuation Report) is fair and reasonable. According to the IMS statistics, in the domestic (mainland) market, the products similar to Rongliflozin in the market are Dapagliflozin, Empagliflozina and Canagliflozin. The table below shows the sales volume and unit price data of the above drugs in 2018 and 2019:

Drug/ item	**Sales volume in 2018** *tablet*	**Unit price in 2018** *US$/tablet*	**Sales volume in 2019** *tablet*	**Unit price in 2019** *US$/tablet*
Dapagliflozin	9,336,834	1.54	20,617,128	1.54
Empagliflozina	214,900	1.65	977,720	1.44
Canagliflozin	182,420	1.58	1,317,540	1.31
Total sales volume / average price	9,734,154	1.54	22,912,388	1.52

The above table shows that the average unit price of the above drugs was approximately RMB10.60 per tablet in 2018 and approximately RMB10.50 per tablet in 2019. With reference to the above data, in the domestic (mainland) market, the unit price in 2019 decreased by approximately RMB0.1 per tablet as compared with that in 2018, representing a decrease of approximately 1% which is close to the decrease of approximately 1.5% as used in the Valuation report; the sales volume in 2019 increased by 13,178,234.00 tablets as compared with that in 2018, representing an increase of approximately 135% which is higher than the increase of approximately 78% as used in the Valuation report.

With reference to IMS data, the sales volume of Liraglutide in 2017, 2018 and 2019 was 295,084.00 pens, 864,874.00 pens and 1,403,022.00 pens, respectively, representing an

increase of 193% and 62%, respectively, which is close to the growth of 67% as used in the Valuation report; the average unit price was RMB421.8 per pen, RMB297.9 per pen and RMB290.6 per pen, representing a decrease of approximately 30% and 2.5%, respectively, which is lower than the decrease of 14% as used in the Valuation report.

In addition, with reference to the public tender information of various places, the average tender price of the above products in 2019 was approximately RMB15.97 per tablet for Dapagliflozin, approximately RMB10.74 per tablet for Empagliflozina, and approximately RMB9.42 per tablet for Canagliflozin. The average tender price was RMB12.04 per tablet. The predicted price of RMB10.50 per tablet in 2019 is lower than the tender price in the market; the product similar to Liraglutide in the market is Novo Nordisk Liraglutide. With reference to the public tender information of various places, the average tender price for procurement in 2019 was RMB410.00 per tablet, and the predicted price of RMB290.60 per tablet in 2019 is lower than the tender price in the market. The determination of the sales unit price is more prudent.

In conclusion, the relevant parameters based on which the profit forecast in the Asset Valuation Report was made have given full consideration to the price and sales volume and the changes thereof of similar products available in the domestic market as at the valuation Benchmark Date. Therefore, the profit forecast and valuation are reasonable.

On 28 November 2019, the above products have passed the negotiation on drugs to be incorporated in the national medical insurance system. The negotiated prices will be executed in January 2020. In general, the negotiated prices of drugs to be incorporated in the national medical insurance system will decrease to a certain degree, which will result in a steady increase in sales volume, forming a win-win situation for patients and pharmaceutical companies. Novo Nordisk Liraglutide was included in the medical insurance catalog for the first time in 2017. The price dropped by approximately 50% after negotiations, the sales volume increased by approximately 300%, and business revenue increased by over 200%. The profit forecast involved in the valuation was made earlier than the negotiation for the medical insurance catalog. The profit forecast was determined, with 31 July 2019 as the valuation benchmark date, by the valuation institution with reference to the sales price for 2020 and forward, following the principle of matching the sales volume and based on the average unit price decline and average sales volume increase in historical years. The profit forecast is more prudent as compared with the increase in revenue arising from the success in the negotiation for the medical insurance catalog.

In light of the sales of most products incorporated in the national medical insurance system having presented a trend of lowering price for a larger sales volume after the negotiation, and only a few products having declined in sales with average rate of not exceeded 20% and the previous changes in sales of relevant products after incorporation in the national medical insurance system, in order to further ensure the interests of the Company and public shareholders, the consideration was adjusted to 80% of the total valuation of the appraised products reached by the Asset Valuation Report, i.e. RMB1,645,600,000, after negotiation by the parties to the transaction.

The decrease of 20% in the consideration is higher than the previous decrease in sales of relevant products after incorporation in the national medical insurance system. Meanwhile, both

parties to the transaction will conduct consideration adjustment based on the sales for the three years of 2027, 2028, and 2029 as forecasted in the Asset Valuation Report. If the agreed sales cannot be achieved, the consideration will be further adjusted downward until all the consideration is returned.

In conclusion, after comprehensive consideration of the changes in the quantity and sales price of similar marketable products in the PRC, the pattern of generic drugs and the impact of new drug research and development on the Target Assets, the quality and advantages of the Target Assets, the risk of price fall of the Target Assets, the competitive environment in the market and other factors, and the impact of past price reduction due to the negotiation on incorporation of drugs in the national medical insurance system on the sales of relevant drugs, the Directors are of the view that it is reasonable to adjust the consideration to 80% of the total valuation of the Target Assets reached by the Asset Valuation Report.

The Directors (including the independent non-executive Directors, after taking into account the advice of Gram Capital, details of which are set out on pages 34 to 51 of this circular) have confirmed that the Proposed Acquisition is on normal commercial terms, which are fair and reasonable, and although the Proposed Acquisition is not conducted in the ordinary and usual course of business of the Company, it is in the interests of the Company and its Shareholders as a whole.

5. Listing Rules Implication

As the highest applicable percentage ratio in respect of the Proposed Acquisition exceeds 5% but is less than 25%, the Proposed Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Parent Company directly holds approximately 50.40% of the equity interests in the Company and is therefore a controlling shareholder of the Company. Shenzhen HEC Industrial directly and indirectly holds approximately 53.32% of the equity interests in the Parent Company, with approximately 27.97% of such equity interests being directly held and Sunshine Lake Pharma is an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. Therefore, Sunshine Lake Pharma is a connected person of the Company by virtue of being an associate of the Parent Company. Accordingly, the Proposed Acquisition also constitutes a connected transaction of the Company. As the highest applicable percentage ratio in respect of the Proposed Acquisition exceeds 5%, the Proposed Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Due to his position as a director and general manager of Shenzhen HEC Industrial (being the controlling shareholder of the Parent Company), Mr. TANG Xinfa, a non-executive Director, is regarded as having a material interest in the Proposed Acquisition and has abstained from voting on the Board resolution approving the Proposed Acquisition.

6. Information of the Parties

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. The ultimate beneficial owner of the Company is Mr. ZHANG Zhongneng.

Sunshine Lake Pharma

Sunshine Lake Pharma is a company incorporated in the PRC and an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial. It primarily engages in the development, manufacturing and sale of pharmaceutical products. The ultimate beneficial owner of Sunshine Lake Pharma is Mr. ZHANG Zhongneng.

II. Independent Board Committee and Independent Financial adviser

The Independent Board Committee (comprising Mr. TANG Jianxin, Mr. FU Hailiang and Mr. ZHAO Dayao, all being independent non-executive Directors) has been established to advise the Independent Shareholders in connection with the Proposed Acquisition. Gram Capital has been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Acquisition.

III. Recommendations

The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the Proposed Acquisition, although not conducted in the ordinary and usual course of business of the Company, is on normal commercial terms which are fair and reasonable and the Proposed Acquisition is 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 resolution in relation to the Proposed Acquisition proposed at the 2020 1st EGM. The text of the letter from the Independent Board Committee is set out on page 33 of this circular.

2020 1ST EGM

A notice convening the 2020 1st EGM (the "**Revised Notice**") of the Company to be held at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC at 10:00 a.m. on Wednesday, 22 January 2020 for the purpose of (i) considering and, if thought fit, approving the Proposed Acquisition has been uploaded on the websites of the Stock Exchange and the Company, and despatched to the Shareholders on 16 December 2019; and (ii)

considering and, if thought fit, approving contemplated transactions under the Supplemental Agreement and its revised supplemental notice was uploaded on the websites of the Stock Exchange and the Company, and despatched to the Shareholders on 3 January 2020.

The form of proxy for use for the 2020 1st EGM (the "**Revised Form of Proxy**") was uploaded on the websites of the Stock Exchange and the Company, and despatched to the Shareholders on 16 December 2019. A supplemental form of proxy to the Revised Form of Proxy was also uploaded on the websites of the Stock Exchange and the Company, and despatched to the Shareholders on 3 January 2020.

Please refer to the announcements of the Company dated 12 December 2019 and 26 December 2019 and the notices of the Company dated 13 December 2019, 16 December 2019 and 3 January 2020 for further details.

In order to determine the list of Shareholders who will be entitled to attend and vote at the 2020 1st EGM, the register of members of the Company has been closed for registration of transfer of Shares from Friday, 29 November 2019 to Wednesday, 22 January 2020 (both days inclusive) and during which period no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company on Wednesday, 22 January 2020 shall be entitled to attend and vote at the 2020 1st EGM. In order for the Shareholders to be qualified for attending and voting at the 2020 1st EGM, all transfer documents, accompanied by the relevant Share certificates, must be lodged with the Company's Board office at Securities Department, Dongyangguang Scientific Park, No. 368 Zhen An Zhong Road, Chang'an County, Dongguan, Guangdong Province, the PRC (for holders of Domestic Shares), or the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) no later than 4:30 p.m. on Thursday, 28 November 2019 for registration.

VOTING AT 2020 1ST EGM

As Sunshine Lake Pharma is a subsidiary of the Parent Company as at the Latest Practicable Date, the Parent Company, holding approximately 50.40% equity interests in the Company, is required to abstain from voting on the resolution to be proposed at the 2020 1st EGM to approve the Proposed Acquisition.

As the consideration for the Proposed Acquisition exceeds 30% of the total assets of the Company's latest audited financial report, in accordance with the Articles of Association, the Proposed Acquisition will be proposed at the 2020 1st EGM for approval by way of special resolution.

Voting on the resolution at the 2020 1st EGM will be taken by poll.

OTHER INFORMATION

Your attention is drawn to other sections of and appendices to this circular.

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

YiChang HEC ChangJiang Pharmaceutical Co., Ltd.
宜昌東陽光長江藥業股份有限公司
(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 01558)

6 January 2020

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE TARGET ASSETS FROM SUNSHINE LAKE PHARMA

We refer to the circular issued by the Company to the Shareholders dated 6 January 2020 (the "**Circular**") which this letter forms a part of. Terms defined in the Circular shall have the same meanings as those used in this letter unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the Proposed Acquisition and to advise the Independent Shareholders in respect of the Proposed Acquisition. Gram Capital 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 Gram Capital" as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Gram Capital as set out in their letter of advice, we consider that the Proposed Acquisition, although not conducted in the ordinary and usual course of business of the Company, is on normal commercial terms which are fair and reasonable and the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution approving the Proposed Acquisition at the 2020 1st EGM (formerly known as 2019 4th EGM).

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

TANG Jianxin	**FU Hailiang**	**ZHAO Dayao**
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 Proposed Acquisition 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/
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Hong Kong

6 January 2020

To: The Independent Board Committee and the Independent Shareholders of YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders of the Company (the "**Independent Shareholders**") in respect of the Proposed Acquisition, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 6 January 2020 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 13 November 2019, the Company entered into the Sale and Purchase Agreement with Sunshine Lake Pharma, pursuant to which the Company proposed to acquire and Sunshine Lake Pharma proposed to dispose, the Target Assets at a total consideration of RMB2,057 million.

On 26 December 2019, the Company and Sunshine Lake Pharma entered into the Supplemental Agreement to adjust the consideration to RMB1,645.6 million and to amend the payment terms.

With reference to the Board Letter, the Proposed Acquisition constitutes a discloseable transaction and connected transaction of the Company, which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The Independent Board Committee comprising Mr. TANG Jianxin, Mr. FU Hailiang and Mr. ZHAO Dayao, being all of the independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Proposed Acquisition are on normal commercial terms and are fair and reasonable; (ii) whether the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole and is 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 Proposed Acquisition 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, Mr. Graham Lam was the person signing off (i) the opinion letter from the independent financial adviser contained in the Company's circular dated 30 July 2018 in respect of a discloseable and connected transaction regarding the proposed acquisition of six target assets; and (ii) the opinion letter from the independent financial adviser contained in the Company's circular dated 9 April 2019 in respect of a major and connected transaction regarding the proposed acquisition of 27 target assets.

Notwithstanding the aforesaid past engagements, as at the Latest Practicable Date, we did not have any relationships or interests between Gram Capital and the Company or any other parties that could reasonably be regarded as relevant to Gram Capital's independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition.

Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

Having considered the above and that none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date, 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 and/or the management of the Company (the "**Management**"). We have assumed that all information and representations that have been provided by the Directors and/or the Management, 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 and/or the Management 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, the Directors and/or the Management, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Proposed Acquisition. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group or the Target Assets, and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation reports on the Target Assets (the "**Valuation Reports**"). The Valuation Reports were prepared by China Alliance Appraisal Co., Ltd., an independent PRC valuer. Despite that we are not experts in the valuations of assets or business and we have relied upon the Valuation Reports for the value of the Target Assets as at 31 July 2019 (the "**Valuations**"), we performed various works to assess the fairness and reasonableness of the Valuations (details of which are set out under the section headed "Consideration" of this letter).

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the 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, Sunshine Lake Pharma or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Acquisition. 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 while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Information on the Group

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

Set out below is a summary of the consolidated financial information on the Group for the two years ended 31 December 2018 and the six months ended 30 June 2019 as extracted from the Company's annual report for the year ended 31 December 2018 (the "**2018 Annual Report**") and interim report for the six months ended 30 June 2019 (the "**Interim Report**"):

	For the six months ended 30 June 2019	**For the year ended 31 December 2018**	**For the year ended 31 December 2017**	**Change from 2017 to 2018**
	RMB'000	*RMB'000*	*RMB'000*	*%*
Revenue	3,071,259	2,510,476	1,601,567	56.75
– Anti-viral drugs	*2,932,847*	*2,254,227*	*1,407,948*	*60.11*
– Cardiovascular drugs	*44,602*	*100,677*	*96,331*	*4.51*
– Endocrine and metabolic drugs	*38,677*	*100,740*	*41,355*	*143.60*
– Other medical products	*55,133*	*54,832*	*55,933*	*(1.97)*
Profit for the period/year attributable to the Shareholders	968,424	942,536	647,101	45.66

From the above table, we noted that the Group recorded a substantial increase in revenue and profit attributable to Shareholders for the year ended 31 December 2018 of approximately 56.75% and 45.66% respectively as compared to those for the year ended 31 December 2017. With reference to the 2018 Annual Report, the significant growth of the Group's revenue was primarily attributable to the increase in the sales volume of the core products Kewei and Ertongshu and the effectiveness of the establishment of the sales teams.

With reference to the 2018 Annual Report, in 2019, the Group will continue to increase its academic promotion efforts to further expand the number of high-ranked hospitals in which the core product Kewei is prescribed, strengthen the establishment of sales teams in primary healthcare institutions and pharmacies and explore new sales channels for Kewei. In the meantime, the Group will lay the foundation for the promotion of upcoming product launching to ensure the stable growth of the Group in the future. In addition, the Group will continue strengthening investment in product innovation, enriching product portfolio, enhancing production management capabilities of the Company to ensure high quality of products and strengthening the establishment of sales teams and fully utilize academic promotion advantages to enhance coverage level in medical institutions in all classes.

With reference to the Interim Report, during the first half year of 2019, the Group achieved a revenue of approximately RMB3,071.3 million, representing an increase of approximately 107.2% as compared to that for the corresponding period of 2018. The Group's revenue from Kewei products during the period amounted to approximately RMB2,930.3 million, representing an increase of 116.5% compared to the corresponding period of 2018. The growth in the revenue from Kewei products was mainly due to nationwide prevalence of influenza treatment concept, and Oseltamivir is gradually adopted as the first line treatment.

Information on Sunshine Lake Pharma

Sunshine Lake Pharma is a company incorporated in the PRC and an indirect non wholly-owned subsidiary of Shenzhen HEC Industrial. It primarily engages in the development, manufacturing and sale of pharmaceutical products.

With reference to the Board Letter, Sunshine Lake Pharma (being a subsidiary of Yichang HEC Research Co., Ltd. (宜昌東陽光藥研發有限公司)) is a member of the HEC Research Group, which is one of the leading pharmaceutical research institutions in the PRC, with over 1,600 research fellows, including experts selected to the PRC government's "National 1,000 People Plan" (國家"千人計劃") and "Young Leadership Programme" ("青年領軍人物"). Sunshine Lake Pharma has also been recognised by Ministry of Human Resources and Social Security and National Post-Doctorate Committee (全國博士後管委會) as a Post-Doctoral Science and Research Station (博士後科研工作站).

As at the Latest Practicable Date, Sunshine Lake Pharma possessed the Target Products and all interests, benefits attached and all rights legally entitled, and all obligations assumed in accordance with laws within the PRC.

The Target Products are Rongliflozin L-Pyroglutamic Acid (焦谷氨酸榮格列淨) and Liraglutide (利拉魯肽).

- Rongliflozin L-Pyroglutamic Acid (焦谷氨酸榮格列淨) is a national Class 1 innovative drug, functioning as sodium-glucose linked transporter-2 (SGLT-2) inhibitor, intended for the treatment of Type 2 Diabetes and in the preparation work for Phase III clinical trial.

- Liraglutide (利拉魯肽) is a biological agent, functioning as glucagon-like peptide-1 (GLP-1) receptor agonist, intended for the treatment of Type 2 Diabetes and in the preparation work for Phase I clinical trial and Phase III clinical trial, which will be conducted simultaneously.

According to the website of World Health Organisation, diabetes is a chronic, metabolic disease characterized by elevated levels of blood glucose (or blood sugar), which leads over time to serious damage to the heart, blood vessels, eyes, kidneys, and nerves. The most common is Type 2 Diabetes, usually in adults, which occurs when the body becomes resistant to insulin or doesn't make enough insulin.

Reasons for and benefits of the Proposed Acquisition

With reference to the Board Letter, the Company has decided to acquire the Target Products from Sunshine Lake Pharma due to the various reasons, details of which are set out under the section headed "Reasons for and Benefits of the Proposed Acquisition" of the Board Letter.

According to the Interim Report, looking into the second half of 2019, the Group will continue promoting R&D innovation, enriching product portfolio, enhancing production management capabilities to ensure high quality of products and improving the establishment of sales teams, as well as fully utilizing academic promotion advantages and enhancing coverage level in medical institutions in all categories to achieve its stable and long-term development in the future.

As advised by the Directors, they expected the sales of the Target Products in the PRC to be positive. For our due diligence purpose, we noted from《健康中國行動(2019–2030年)》(Health China (2019-2030)*) as published by the National Health Commission of the PRC in July 2019 that,

- diabetes is a common endocrine and metabolic disease;

- the diabetes prevalence of over 18-year-old population in the PRC grew rapidly from 4.2% in 2002 to 9.7% in 2012. It is estimated that there are more than 97 million people with diabetes in China and about 150 million people with pre-diabetes in the PRC;

- Type 2 Diabetes is the most common type of diabetes in the PRC.

We further enquired into the Directors whether the Group could self-research-and-develop pharmaceutical products which may have same ingredients as compared to the Target Products. As advised by the Directors, the Group may spend substantial resources to self-research-and-develop pharmaceutical products and also bear the risk of research and development failure. Even the products were successfully developed by the Group,

the NMPA application of drug registration approval procedures for those products may be time consuming and burdensome. Upon our request, the Directors advised us that, a general drug registration approval procedures in the PRC normally included following steps: (i) investigational new drug application, also known as clinical trial application in the PRC; (ii) clinical trials (including three phases); (iii) new drug application (including application filing, preliminary review, comprehensive review, drug inspection, on-site inspection, review and approval decision, and license delivery); and (iv) phase IV clinical trial (not obligatory unless conditional new drug application).

Despite that Sunshine Lake Pharma is in the progress of obtaining intellectual property rights in relation to Target Products, the ownership rights and sales rights of license to manufacture the Target Products in the PRC, the Directors expected that it may also take much less time for the Group to manufacture and sale of Target Products in the PRC (after obtaining all necessary approvals from NMPA) than the Group's sale of self-research-and-develop pharmaceutical products with same ingredients to the Target Products. In addition, with reference to the Board Letter, the Proposed Acquisition at such timing will help the Company to improve the resource allocation in the field of diabetes treatment and to maximize the synergy so as to make arrangement in advance for the production and marketing of products intended for reducing blood glucose and to make full preparation for the subsequent production and launch in the market. Based on the current valuation and assumption that the discount rate remains unchanged, the valuation of Target Products is estimated to increase significantly throughout forecast period. If the Proposed Acquisition is initiated after revenues of Target Products reach a certain level, the Company will be subject to a greater capital pressure.

In addition, the Directors consider that under this arrangement (i.e. Proposed Acquisition), the Group bear less risk of research and development failure. Pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement), among other things,

- The consideration shall be paid by the Company to Sunshine Lake Pharma by instalments, which include 15% of the total consideration shall be paid by the Company when any Single Product reaches certain milestones; and 51.6% of the total consideration shall be paid by the Company when sales revenue generated by Target Assets meet certain performance.

  With reference to the Board Letter, to secure all the monetary obligation of Sunshine Lake Pharma under the Sale and Purchase Agreement and the Supplemental Agreement, Shenzhen HEC Industrial (the controlling Shareholder of the Company and also the shareholder of Sunshine Lake Pharma) agreed to provide a guarantee in favour of the Company, pursuant to which, Shenzhen HEC Industrial unconditionally, independently and irrevocably agreed to be jointly responsible for any amount due and payable by Sunshine Lake Pharma under the Sale and Purchase Agreement and the Supplemental Agreement and with term of two years starting from the date when any amount is due and payable by Sunshine Lake Pharma under the Sale and Purchase Agreement and the Supplemental Agreement. For our due diligence purpose, we obtained the guarantee letter.

According to Shenzhen HEC Industrial's 2019 third quarterly report, among other things, Shenzhen HEC Industrial recorded (i) monetary funds of approximately RMB8.5 billion; and (ii) net assets of approximately RMB23.1 billion as at 30 September 2019. In addition, Shenzhen HEC Industrial directly and indirectly held approximately 53.32% of the equity interests in the Parent Company (the market value of the Parent Company amounted to approximately RMB24 billion as at the date of Sale and Purchase Agreement).

Therefore, we do not doubt the capacity of Sunshine Lake Pharma (as guaranteed by Shenzhen HEC Industrial) in respect of the possible refund arrangement pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement).

- If, for any reason, (1) NMPA delivers a notice that disapproves the drug license and the drug marketing license for any of the Single Products or the change or registration of the holder of drug marketing license as the Company (or any entity designated by the Company), or (2) the holder of drug marketing license in respect of any of the Single Products has not been changed to or registered as the Company (or any entity designated by the Company) on 31 December 2024 or before, the Company shall not pay any outstanding transaction consideration related to said product for which the drug license or the drug marketing license has not been obtained or the holder of drug marketing license has not been changed to or registered as the Company (or any entity designated by the Company) after the earlier date of (1) and (2) stated above. Furthermore, Sunshine Lake Pharma shall return the amounts already paid for said product in full to the Company within thirty (30) business days from (i) the date when the NMPA notice that disapproves the drug license and the drug marketing license for that product or the change or registration of the holder of drug marketing license as the Company (or any entity designated by the Company) has been received; or (ii) 31 December 2024 (whichever is earlier), and shall pay the Company a sum of interest for the period of taking possession of such amounts, which is based on the latest loan prime rate (LPR) announced by National Interbank Funding Center on the date when this agreement is signed. In the event of a refundable condition as specified herein, the Company shall not return any of Target Assets to Sunshine Lake Pharma (no matter whether Sale and Purchase Agreement has been terminated or not), and the Company (or any entity designated by the Company) has the right to continue to enjoy all interests related to all Target Assets within the scope of the Sale and Purchase Agreement.

Details of the payment arrangement, termination and refund arrangement are set out under subsections headed "Consideration and payment", "Termination", "Liabilities for breach and special compensation" and "The Supplemental Agreement" of the Board Letter.

As further advised by the Directors, as at the Latest Practicable Date, the Directors were not aware of any similar offer(s) (i.e. the sale of similar products to Target Products) available to the Group.

Based on the above, the Directors consider the Proposed Acquisition to be appropriate. We also concur with the Directors.

In light of that (i) the Proposed Acquisition is in line with the Group's development strategy; (ii) the Proposed Acquisition to be appropriate, we concur with the Director that although the Proposed Acquisition is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement)

Set out below are the major terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement), details of which are set out under the section headed "The Sale and Purchase Agreement" of the Board Letter:

Date:

13 November 2019 (as supplemented by the Supplemental Agreement on 26 December 2019)

Parties:

The Company (as the Purchaser), and

Sunshine Lake Pharma (as the Vendor)

Target Assets:

Target Products and all interests, benefits attached and all rights legally entitled, and all obligations assumed in accordance with laws within the PRC.

Consideration:

The total consideration for the Target Assets is RMB1,645.6 million, which shall be paid by the Company to Sunshine Lake Pharma by installments subject to certain circumstances. Details of the payment terms are set out under the sub-section headed "The Supplemental Agreement" of the Board Letter.

With reference to the Board Letter, the consideration was determined after arm's length negotiation between the Company and Sunshine Lake Pharma with reference to the result of the total Valuations of Target Assets of RMB2,057 million assessed by the Valuation Reports. Upon full negotiation by both parties, the consideration of the Target Assets held by Sunshine Lake Pharma shall be RMB1,645,600,000, i.e. 80% of the valuation of the Target Assets.

The Valuations

For our due diligence purpose, we reviewed the Valuation Reports. We also reviewed and enquired (i) the terms of engagement of CAA with the Company; (ii) CAA's qualification and experience in relation to the preparation of the Valuation Reports (including reasonable checks to assess the relevant qualifications, experience and expertise of CAA (e.g. reviewing CAA's company profile and discussing with CAA regarding their qualifications and experience)); and (iii) the steps and due diligence measures taken by CAA for conducting the Valuations. From the mandate letter, other relevant information provided by CAA, and our interview with CAA, we are satisfied with the terms of engagement of CAA as well as their qualification and experience for preparation of the Valuation Reports. CAA also confirmed that they are independent to the Group, Sunshine Lake Pharma and their respective associates. We further reviewed and enquired into CAA on the methodology adopted and the basis and assumptions adopted in arriving at the Valuations in order to understand the Valuation Reports. As confirmed by CAA, the income approach is one of the commonly adopted approaches for valuation of assets.

With reference to the sub-section headed "Selection of valuation approach" under the section headed "VALUATION APPROACH" of the Valuation Reports as set out in Appendix II to the Circular, (i) it is generally considered the value of intangible assets can be barely reflected by the replacement cost due to the fact that the value of such assets are generally reflected by the intellectual labour of high-tech personnel, the outcome of such labour can be barely measured by the labour cost; and (ii) despite that the market approach is applicable to both tangible assets and intangible assets, the market approach is non-applicable to the Valuations due to the failure to find comparable historic transaction precedents in the market. Therefore, CAA adopted income approach for valuations of Target Assets. Based on the aforesaid factors and having also considered (i) CAA's qualifications and experience; (ii) that to the best of our knowledge, we could not find similar transaction (i.e. acquisition of similar products) conducted by other Hong Kong listed companies; and (iii) based on our independent research through the website of Stock Exchange for the acquisition of intangible assets with valuation reports, there were adoptions of income approach for valuation of intangible assets, we consider that the adoption of income approach for the Valuations by CAA to be fair and reasonable.

As CAA has adopted the income approach to conclude the Valuations. In such cases, it is stipulated under Rule 14.62 of the Listing Rules that the Company is required to obtain:

(i) a letter from the its auditors or reporting accountants confirming that they have reviewed the accounting policies and calculations for the forecast and containing their report; and

(ii) a report from the its financial advisers confirming that they are satisfied that the forecast has been made by the directors after due and careful enquiry. If no financial advisers have been appointed in connection with the transaction, the Company must provide a letter from the board of directors confirming they have made the forecast after due and careful enquiry.

We consider that the above stipulation of the Listing Rules could safeguard the interest of the Shareholders. We noted that (i) the Company's auditor confirmed that in their opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation; and (ii) the Company's financial adviser confirmed that they are satisfied that the Forecast (as defined in the Appendix III to the Circular) included in the Asset Valuation Report (as defined in the Appendix III to the Circular), for which the Directors are solely responsible, has been made after due and careful enquiry by the Directors.

We further discussed with CAA in respect of the Valuation Reports to understand the major evaluation parameters/assumptions (including but not limited to estimated income contribution of intangible assets, sale volume, sale price, costs, discount rate, rate of return on the investment in intangible assets, etc.) and CAA's workdone in arriving at the Valuations. We obtained relevant documents/information (e.g. sales price and volume of similar products, the Group's gross profit margins, calculation of risk-free rate, average interest rates for mid-term and long-term treasury bond (10 years, 30 years and 50 years), etc.) which supported the aforesaid basis and assumptions for arriving at the evaluation parameters.

A. Determination of lifetime

According to the Valuation Report, the forecast period for the valuations of Rongliflozin L-Pyroglutamic Acid (焦谷氨酸榮格列淨) is from 31 July 2019 to 31 December 2034 and for Liraglutide (利拉魯肽) is from 31 July 2019 to 31 December 2032. We enquired into the Directors regarding the basis for the adoption of such forecast periods. We understood that such period was determined with reference to drugs' application stages, expected life cycle of such drugs, patent period etc.

B. Estimates of income contribution of intangible assets

According to the Valuation Reports, Income Contribution of Intangible Assets = EBITDA – contribution of other assets = EBITDA – contribution of working capitals – contribution of long-term assets – contribution of labor assets

EBITDA = total profit + interest expenses + depreciation and amortization.

During the course of arriving at EBITDA, the Directors took into account of (i) forecast of the revenue; (ii) forecast of operating costs; (iii) forecast of tax and surcharge; (iv) forecast of sales expenses; (v) forecast of administration expenses; and (vi) depreciation. For our due diligence purpose, we discussed with Directors and CAA the aforesaid factors. In respect of forecasted revenue, the Directors considered estimated sale volume, estimated sale price and expected approval times for pharmaceuticals.

With reference to the Valuation Reports, we noted the following factors, among other things:

- estimated sale volume for pharmaceutical products regarding the Target Assets in the PRC market was determined based on sale data for relevant products (Victoza-Liraglutide & SGLT-2 drug category products) during first half year of 2019 from IMS data base*(Note)* in the PRC. The sale volume were further adjusted based on compound growth rate (which was calculated based on the sales data of products of the same type in the different countries from 2014 to 2018 in the IMS data base).

  Upon our request, we obtained statistics showing sales data of relevant products from 2014 to 2018.

  According to the sales data of SGLT-2 drug category products, (i) average compound annual growth rate amounted to approximately 78% for sales of SGLT-2 drug category products data in similar overseas market (e.g. Korea, Finland, the United States, etc.) from 2014 to 2019 (Note: data for 2019 was annualized); (ii) annualized sales data of SGLT-2 drug category products in China for 2019 was applied as base sales volume in determining the estimated sale volume of Rongliflozin.

  According to the sales data of Victoza-Liraglutide drug, (i) compound annual growth rate amounted to approximately 67% for sales of Victoza-Liraglutide drug category data in the PRC from 2014 to 2019 (Note: data for 2019 was annualized); (ii) annualized sales data of Victoza-Liraglutide drug in China for 2019 was applied as base sales volume in determining the estimated sale volume of Liraglutide.

  The above-mentioned compound growth rates were applied when determining the estimated annual growths of sale volume for Rongliflozin and Liraglutide in earlier stage of forecast period. When determining the estimated annual growths of sale volume for Rongliflozin and Liraglutide in later stage of forecast period, the compound growth rates was reduced by 50%.

Note: IMS data base is supported by IQVIA. IQVIA is a leading global provider of advanced analytics, technology solutions and contract research services to the life sciences industry.

The factor "market shares of the Target Products" was applied and they gradually increased and then decreased after they reached the highest points in 2028 and/or 2029, which was determined based on the expected market competitors.

- estimated sale prices for pharmaceutical products regarding the Target Assets was determined with reference to the sales prices of similar pharmaceutical products in the PRC. The sale prices were further adjusted based on compound growth rate (which was calculated based on the sales data (price) of products of the same type in different countries from 2014 to 2018 in the IMS data base).

  Upon our request, we obtained statistics indicating sales data (price) of relevant products from 2014 to 2018 (calculated by sales volume (in dollar)/sales volume (in unit)).

  According to the sales data of SGLT-2 drug category products, (i) average compound annual growth rate amounted to approximately -1.5% for implied selling price of SGLT-2 drug category data in similar overseas market (e.g. Korea, Finland, the United States, etc.) from 2014 to 2019 (Note: data for 2019 was annualized); (ii) implied selling price of SGLT-2 drug in the PRC for 2019 was applied as base selling price in determining the estimated selling price of Rongliflozin.

  According to the sales data of Victoza-Liraglutide drug, (i) compound annual growth rate amounted to approximately -14.2% for implied selling price of Victoza-Liraglutide drug category data in the PRC from 2014 to 2019 (Note: data for 2019 was annualized); (ii) implied selling price of Victoza-Liraglutide drug in the PRC for 2019 was applied as base selling price in determining the estimated selling price of Liraglutide.

- the operating cost is determined by reference to the gross profit margin of the Group in 2017, 2018 and first half year of 2019. For our due diligence purpose, we noted that gross profit margins of the Group were approximately 82.5%, 84.1% and 85.3% respectively, with an average of approximately 84.0% for aforesaid period. The maximum implied gross profit margins of the Target Products during the forecast period were in line with the aforesaid average gross profit margin.

- the tax and surcharge include urban maintenance and construction tax, education surcharge and local education surcharge. We noted that the estimated tax and surcharge were in line with those as announced by the PRC government.

We further requested the Company to arrange experienced and knowledgeable staffs of HEC group (at least one of whom must be the Group's staff) to explain the reasonableness of the forecast of Target Assets. Therefore, we discussed with a staff of the Company, who has approximately 10 years' experience in pharmaceutical industry respectively and a staff (the "**Staff**") of Dongguan HEC Medicine Development and Research Co., Ltd.*(Note)*, who has approximately 10 years' experience in pharmaceutical industry regarding the forecast of the revenue (including the estimated sale volume, estimated sale price, expected approval times and expected lifecycle) for relevant pharmaceuticals.

C. Rate of return on the investment in intangible assets

When applying the income approach (which involved discounted cash flow method) to estimate the Valuations, an appropriate discount rate for the assets under review was necessary. We noted that CAA calculated rate of return on the investment in intangible assets with reference to various factors.

For our due diligence purpose, we discussed with a CAA staff to understand how to calculate rate of return on the investment in intangible assets. We understood that CAA took following steps: (i) recognized comparable companies' weighted cost of capital ("**WACC**"); and (ii) estimation of the discount rate of intangible assets based on (a) WACC determined in step (i); (b) comparable companies' expected rate of return on the investment in current assets (capital), fixed assets (capital); and (c) portion of comparable companies' current assets (capital), fixed assets (capital) and intangible assets (capital) over total assets.

We further enquired into CAA the reasons for the selection of comparable companies. CAA advised us (i) the selection criteria ((a) the comparable companies shall be profitable in recent years; (b) the comparable companies shall only issue A shares in RMB; (c) the businesses of comparable companies shall be involved with the pharmaceutical manufacturing industry, whose principal businesses are related to diabetes); and (ii) that CAA selected A-share listed companies due to the target market for sale of pharmaceutical products produced in accordance with the Target Assets is the PRC. Upon our further request, CAA confirmed that the comparable companies are fair and representative samples. Having considered (i) CAA's qualification and experience; (ii) A-share listed companies was selected due to the target market for sale of pharmaceutical products produced in accordance with the Target Assets is the PRC; (iii) that it is justifiable that the comparable companies shall be profitable in recent years as net profits are recorded during majority years of the forecast periods; and (iv) our independent research on the comparable companies, we concur with CAA that the comparable companies are fair and representative.

Note: Dongguan HEC Medicine Development and Research Co., Ltd. is a subsidiary of Linzhi HEC Pharmaceutical Investment Co., Ltd., being the controlling Shareholder.

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

Having also considered (i) our due diligence work on CAA in respect of the Valuation Reports; (ii) the Rule 14.62 of Listing Rules requirement; (iii) that the Company's financial adviser are satisfied that the Forecast (as defined in the Appendix III to the Circular) included in the Asset Valuation Report (as defined in the Appendix III to the Circular), for which the Directors are solely responsible, has been made after due and careful enquiry by the Directors, we consider that the principal bases and assumptions adopted for the Valuations as at the valuation reference date to be fair and reasonable.

Impact of the Negotiation

With reference to the Circular and the Company's announcement dated 27 December 2019 regarding the Supplemental Agreement, National Healthcare Security Administration has conducted a five-day negotiation about drugs to be incorporated into the National Medical Insurance System after 11 November 2019 (the "**Negotiation**"). The Negotiation results were released to the public on 28 November 2019. According to the Negotiation results, marketable products similar to the Target Assets have passed the Negotiation for Natural Medical Insurance with relevant national authorities on 28 November 2019, resulting in a substantial decrease in the price as compared with that before the Negotiation.

With reference to the Circular, during the period from the valuation reference date (i.e. 31 July 2019) to the date of the valuation report (i.e. 15 October 2019), the negotiation for the medical insurance catalog had not yet begun; therefore, it is impossible to predict the impact on the valuation of the Target Assets when preparing the valuation report dated 15 October 2019 with valuation reference date of 31 July 2019.

The total consideration of RMB1,645.6 million represented a discount of 20% to the Valuations (the "**Discount**").

With reference to the Board Letter, in order to further ensure the interests of the Company and public shareholders, the consideration was adjusted to 80% of the total valuation of the appraised products reached by the Valuation Reports, i.e. RMB1,645,600,000, after negotiation by the parties to the transaction.

The decrease of 20% in the consideration is higher than the previous decrease in sales of relevant products after incorporation in the national medical insurance system. Meanwhile, both parties to the transaction will conduct consideration adjustment based on the sales for the three years of 2027, 2028, and 2029 as forecasted in the Valuation Reports. If the agreed sales cannot be achieved, the consideration will be further adjusted downward until all the consideration is returned.

Upon our request, the Directors further provided the sales data of pharmaceutical products which were incorporated in the National Medical Insurance System through previous negotiations in 2017 and 2018 (the "**Previous Negotiations**"). According to the sales data and our independent research from the internet, we noted the following:

- There were 36 products which were incorporated in the National Medical Insurance System through negotiation in July 2017.

  The database recorded sales data for 32 out of 36 products. According to the available information, during the period from third quarter of 2017 to second quarter of 2018, there were (i) four out of 32 products recording decrease in sales (in RMB) as compared to those during the period from third quarter of 2016 to second quarter of 2017, with average decreased rate of approximately 13%; and (ii) 28 out of 32 products recording increase in sales (in RMB) for the same period.

- There were 17 products which were incorporated in the National Medical Insurance System through negotiation in October 2018 (collectively with the 36 products as mentioned above, the "**Pharmaceutical Products**").

  The database recorded sales data of 10 out of 17 products. According to the available information, there were (i) four out of 10 products recording decrease in sales (in RMB) for the fourth quarter of 2018 as compared to those for the fourth quarter of 2017, with average decrease rate of approximately 17.9%; and (ii) six out of 10 products recording increase in sales (in RMB) for the same period.

In addition, based on our understanding from the Directors, due to lowering price for a larger sales volume as a result of the negotiation on incorporation of drugs in the National Medical Insurance System, the prices of relevant products have decreased while their sales volumes have significantly increased, which has led to a reduction in unit fixed cost of relevant products, and the gross profit margin will not decrease significantly and may even rise.

Based on the above figures, and having considered that,

(i) the Valuations were appraised by CAA through income approach. According to the Valuation Reports, CAA discounted the future income contribution of intangible assets for the purpose of valuations.

  As mentioned above, Income Contribution of Intangible Assets = EBITDA – contribution of other assets = EBITDA – contribution of working capitals – contribution of long-term assets – contribution of labor assets

  where, EBITDA = total profit + interest expenses + depreciation and amortization

Assuming the net profit margin remains unchanged, the total profit (i.e. net profit in this case) will decrease by the same portion as the decrease of the sales (in RMB) (as calculated by products sales volume times products per unit price, which may be directly affected by the Negotiation).

In addition, the Directors understood the impact of the Negotiation on contribution of other assets to be immaterial;

(ii) with available information and according to the above findings, after the relevant Previous Negotiations respectively, (a) the sales (in RMB) derived from the majority of the Pharmaceutical Products increased; and (b) the average decrease rates of the Pharmaceutical Products (excluding those with increased sales (in RMB)) amounted to approximately 13% and 17.9% respectively as mentioned above; and

(iii) although none of the Pharmaceutical Products were for the treatment of Type 2 Diabetes, it would be acceptable to take into account of the sales (in RMB) of the Pharmaceutical Products when determining the Discount as the above data showing the general impact on sales of relevant Pharmaceutical Products after the Previous Negotiations,

we concur with the Directors that the discount of 20% as mentioned above to be justifiable.

Furthermore, pursuant to the Supplemental Agreement, among other things, if the accumulated operating income of the Target Assets for the three years of 2027, 2028 and 2029 or any three consecutive years prior to 2029 reaches RMB10,097,000,000 or above (subject to the audited financial statements) (the "**Performance Target**"), the Company shall pay the final instalment of RMB848,760,000 to Sunshine Lake Pharma in a lump sum. If the accumulated operating income of the Target Assets for the three years of 2027, 2028 and 2029 or any three consecutive years prior to 2029 fails to reach RMB10,097,000,000 (subject to the audited financial statements), the amount of final instalment that shall be paid by the Company to Sunshine Lake Pharma or (as the case may be) the relevant amount that shall be returned by Sunshine Lake Pharma to the Company according to the following formula:

Final instalment that shall be paid by the Company to Sunshine Lake Pharma$^{(Note)}$ = RMB1,645,600,000 (i.e. the total consideration) × accumulated operating income for years of 2027, 2028 and 2029 ÷ RMB10,097,000,000 (i.e. the Performance Target) – RMB796,840,000 (i.e. the sum of first and second installment of total consideration)

Note: If the value arrived is negative, the Company is not required to pay the final instalment and Sunshine Lake Pharma shall return payments (being the equivalent absolute amount of the value) to the Company.

In light of the above basis of the consideration and that (i) the total consideration represents a discount of 20% to the Valuations; (ii) as analysed above, the discount of 20% to be justifiable; and (iii) the final instalment (being approximately 51% to the total consideration) is subject to accumulated operating income of the Target Assets for the three years of 2027, 2028 and 2029 or any three consecutive years prior to 2029 reaches RMB10,097,000,000 or above, we are of the view that the total consideration of the Proposed Acquisition to be fair and reasonable.

In light of the above factors, we are of the view that the terms of the Proposed Acquisition are on normal commercial terms and fair and reasonable.

RECOMMENDATION

Having taken into consideration of the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Acquisition are on normal commercial terms and are fair and reasonable; and (ii) although the Proposed Acquisition is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Proposed Acquisition and we recommend the Independent Shareholders to vote in favour of the resolution(s) 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 20 years of experience in investment banking industry.

The following is an English translation of the summary of the valuation report and relevant documents in respect of the Target Assets, which is prepared by China Alliance Appraisal Co., Ltd. for the purpose of inclusion in this circular. Such report is prepared in Chinese and this English translation is provided for your reference only. In the event of any inconsistency between the Chinese and English versions, the Chinese version shall prevail.

China Alliance Appraisal Co., Ltd. holds the domestic assets appraisal qualification granted by the China Securities Regulatory Commission and the Ministry of Finance of the PRC.

Summary of the Asset Valuation Report on the Valuation Project in relation to the Proposed Acquisition by YiChang HEC ChangJiang Pharmaceutical Co., Ltd. of the Intangible Assets of the Technical Know-How held by Sunshine Lake Pharma Co., Ltd.

Zhong Tong Hua Ping Bao Zi (2019) No. 061202 and No. 061203

I. SUMMARY OF THE PRINCIPAL, THE TITLE HOLDER AND THE OTHER USER OF THE ASSET VALUATION REPORT APPOINTED IN THE CONTRACT

The principal of this valuation is YiChang HEC ChangJiang Pharmaceutical Co., Ltd., and the title holder is Sunshine Lake Pharma Co., Ltd. ("**Sunshine Lake Pharma**"). Other users of the asset valuation report appointed in the asset valuation engagement contract are users of the valuation report stipulated by laws and administrative regulations.

II. PURPOSE OF THE VALUATION

Pharm HEC intends to acquire the intangible assets of the technical know-hows of the Target Products held by Sunshine Lake Pharma; the purpose of the valuation is to provide reference for the value of the economic activities above.

III. SUBJECT AND SCOPE OF THE VALUATION

The subject of the valuation is the value of the technical know-hows of the Target Products held by Sunshine Lake Pharma.

The scope of the valuation includes intangible assets in relation to the production of Liraglutide and Rongliflozin L-Pyroglutamic Acid, details of which are shown as below.

(I) Patents

Item	Patent No.	Name of Invention	Application Date	Authorization Date	Country	Source of Patent	Applicant
Rongliflozin L-Pyroglutamic Acid	ZL201410505453.X	The glucopyranose derivative and its medical application	14.09	18.01	China	Self-developed	Sunshine Lake Pharma Co., Ltd.
Rongliflozin L-Pyroglutamic Acid	201611070532.8	The complex of glucopyranose derivative, the preparation method and application	16.11	Under review	China	Self-developed	Sunshine Lake Pharma Co., Ltd.
Rongliflozin L-Pyroglutamic Acid	201610273956.8	A glucopyranose derivative and its preparation method and application	16.04	Under review	China	Self-developed	Sunshine Lake Pharma Co., Ltd.
Rongliflozin L-Pyroglutamic Acid	201910014930.5	The preparation method of glucopyranose derivative and its intermediate	19.01	Under priority review	China	Self-developed	Sunshine Lake Pharma Co., Ltd.

As at the valuation reference date, the applicants of the patent – invention patent "The glucopyranose derivative and its medical application" were Sunshine Lake Pharma Co., Ltd. and Ruyuan Yongxing Technology Services Co., Ltd. (乳源縣永星技術服務有限公司). As at the date of the valuation report, the aforesaid applicant has been changed to Sunshine Lake Pharma Co., Ltd.

Item	Application No.	Name of Invention	Purpose	Application Date	Authorization Date	Country	Source of Patent	Nature of Invention	Applicant
Liraglutide	201721231024.3	An inoculation device for fermentation tank	Liraglutide device	17.09	18.01	China	Self-developed	Biosimilar	Sunshine Lake Pharma Co., Ltd.
Liraglutide	201810137252.7	A method for determination of the content of Liraglutide side chain	Liraglutide analysis method	18.02	Official substantive review	China	Self-developed	Biosimilar	Sunshine Lake Pharma Co., Ltd.
Liraglutide	201810433076.1	A testing method for the biological activity of GLP-1 analog	Liraglutide analysis method	18.05	Official preliminary review	China	Self-developed	Biosimilar	Sunshine Lake Pharma Co., Ltd.

(1) Novo Nordisk is the original ground medicine producer of Liraglutide, with its Liraglutide compound patent (CN97198413.0) has expired on 22 August 2017; therefore, there is no risk of infringement of the Liraglutide of Sunshine Lake Pharma. Three patents of Liraglutide are subjected to the Proposed Acquisition. One of the patent, "An inoculation device for fermentation tank" has obtained through review, while the others "A method for determination of the content of Liraglutide side chain" and "A testing method for the biological activity of GLP-a analog" are patents for determination method and detection method developed by Sunshine Lake Pharma and are under official substantive review and official preliminary review, respectively. Sunshine Lake Pharma expects there is no barriers to obtain approval for the two Liraglutide patents.

(2) Rongliflozin is a 1.1-class new drug of Sunshine Lake Pharma with its compound patent (ZL201410505453.X, Glucopyranose derivative and its medical application) has been granted in China. As such, Sunshine Lake Pharma and the Company expect there is no barriers to obtain the three patents of Rongliflozin in the future.

To sum up, the Company is subject to a lower patent risk.

As at the valuation reference date, the applicants of the patent – invention patent "The glucopyranose derivative and its medical application" were Sunshine Lake Pharma Co., Ltd. and Ruyuan Yongxing Technology Services Co., Ltd. (乳源縣永星技術服務有限公司). As at the date of the valuation report, the aforesaid applicant has been changed to Sunshine Lake Pharma Co., Ltd.

(II) Technical know-how

Technical know-how represents relevant technologies, standards, trade secrets, information, records, processes, procedures, documents, statistics and other proprietary information in a visible form in relation to the production of Rongliflozin L-Pyroglutamic Acid and Liraglutide.

(III) Intangible assets related to the patents and the technical know-how

Intangible assets related to the patents and the technical know-how include the record of products among the list of assets proposed to be purchased.

The record of products among the list of assets proposed to be purchased represents all electronic records necessary for the development of the proprietary products in relation to Rongliflozin L-Pyroglutamic Acid and Liraglutide held by the title holder, being the transferor of the intangible assets, including, but not limited to, the record of clinical, quality assurance, drug safety, demand, supply and distribution, commercial services, purchase information and compliance information. It is categorized into relevant intangible assets incidental to patents and the technical know-how by this valuation.

After verification, the subject and scope of the valuation under the engagement are in line with those involved in economic activities. The scope of this valuation is based only on the content of the valuation provided by the principal.

IV. VALUATION REFERENCE DATE

The valuation reference date of the project is 31 July 2019, and is determined by the principal according to the requirement of realizing the economic activities.

V. BASIS OF VALUATION

(I) Basis of economic activities

Description of the asset acquisition by Pharm HEC.

(II) Basis of laws and regulations

1. Asset Valuation Law of the People's Republic of China (《中華人民共和國資產評估法》) (adopted at the 21st Session of the Standing Committee of the 12th National People's Congress of the People's Republic of China on 2 July 2016);

2. Company Law of the People's Republic of China (《中華人民共和國公司法》) (the fourth amendment by the Decision of the Sixth Session of the Standing Committee of the 13th National People's Congress on Amending the Company Law of the People's Republic of China dated 26 October 2018);

3. Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得税法》) (adopted at the 5th Session of the 10th National People's Congress on 16 March 2007) and the regulation on its implementation;

4. Provisional Regulations on Value-added Tax of the People's Republic of China (《中華人民共和國增值税暫行條例》) (State Council Order No. 538, 2008) and related revisions (revised in 2017);

5. Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業税改徵增值税試點的通知》) (Ministry of Finance and State Taxation Administration Cai Shui [2016] No. 36);

6. Circular on Adjusting Value-added Tax Rates (《關於調整增值税税率的通知》) (Ministry of Finance and State Taxation Administration Cai Shui [2018] No.32);

7. Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (Announcement No. 39 [2019] of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs);

8. Measures for Financial Supervision and Administration of the Asset Appraisal Sector (《資產評估行業財政監督管理辦法》) (Ministry of Finance Order No. 86, 2017);

9. The Decision to Amend Two Departmental Rules including the Measures for the Practice Licensing and Supervision and Administration of Accounting Firms (the Ministry of Finance Order No. 97, 2019);

10. Other laws and regulations in relation to asset valuation.

(III) Basis of valuation standards

1. Asset Valuation Basic Standards (《資產評估基本準則》) (Cai Zi [2017] No. 43);

2. Asset Valuation Professional Ethical Standards (《資產評估職業道德準則》) (Zhong Ping Xie [2017] No. 30);

3. Asset Valuation Practicing Standards – Asset Valuation Procedure (《資產評估執業準則－資產評估程序》) (Zhong Ping Xie [2018] No. 36);

4. Asset Valuation Practicing Standards – Asset Valuation Report (《資產評估執業準則－資產評估報告》) (Zhong Ping Xie [2018] No. 35);

5. Asset Valuation Practicing Standards – Asset Valuation Engagement Contract (《資產評估執業準則－資產評估委託合同》) (Zhong Ping Xie [2017] No. 33);

6. Asset Valuation Practicing Standards – Asset Valuation File (《資產評估執業準則－資產評估檔案》) (Zhong Ping Xie [2018] No. 37);

7. Asset Valuation Practicing Standards – Intangible Assets (《資產評估執業準則－無形資產》) (Zhong Ping Xie [2017] No. 37);

8. Guidelines for Valuation of Intellectual Property Rights (《知識產權資產評估指南》) (Zhong Ping Xie [2017] No. 44);

9. Quality Control Guidelines for Business of Asset Valuation Institutions (《資產評估機構業務質量控制指南》) (Zhong Ping Xie [2017] No. 46);

10. Guiding Opinions on Types of Value under Asset Valuation (《資產評估價值類型指導意見》) (Zhong Ping Xie [2017] No. 47);

11. Guiding Opinions on Legal Ownership of Subject under Valuation (《資產評估對象法律權屬指導意見》) (Zhong Ping Xie [2017] No. 48);

12. Guiding Opinions on Valuation of Patent Assets (《專利資產評估指導意見》) (Zhong Ping Xie [2017] No. 49).

(IV) Basis of asset ownership

Certificates of patents related to Rongliflozin L-Pyroglutamic Acid; Registration application acceptance notices on relevant patents of Liraglutide; Description of the relevant information of the patent right and the drug approval number; Contracts and invoices related to intangible assets; Other title documents provided by the title holder.

(V) Basis of pricing

1. National macro and industry statistical analysis;

2. Profit forecast and relevant information jointly provided by the title holder and the principal;

3. The IMS data and the relevant information jointly provided by the title holder and the principal;

4. Relevant information of comparable listed companies;

5. WIND database;

6. Valuer's on-site inspection records and other relevant valuation information collected.

(VI) Other basis

1. Various asset valuation application lists provided by the title holder;

2. Asset valuation engagement letter signed between Pharm HEC and CAA;

3. Interview records of relevant personnel of the title holder;

4. Other relevant information provided by the title holder.

VI. VALUATION APPROACH

(I) Selection of valuation approach

There are three approaches to evaluate the intangible assets, namely the cost approach, the market approach and the income approach.

It is generally considered that the value of intangible assets can be barely reflected by the replacement cost. As the value of such assets are generally reflected by the creative intellectual labour of high-tech personnel, the outcome of such labour can be barely measured by the labour cost. Considering the reasons above, we didn't adopt the cost approach in this valuation.

For assets valuation, the market approach is applicable to both tangible assets and intangible assets, provided that there is same or similar precedents and the transactions should be fair. The market approach is also non-applicable to this valuation due to the failure to identify comparable historical transactions in the market.

As the future income of the intangible asset portfolio can be estimated, so we consider the income approach is appropriate to this valuation.

(II) Summary of valuation approach

According to the characteristics of the subject for this valuation, we take the multi-period excess earnings method to conduct the valuation based on the income approach, which consists of the following steps:

- determining the economic lifetime of the intangible assets;
- estimating the income derived from all the assets during the economic lifetime;
- calculating the return from other contributable assets;
- calculating the income contribution of the intangible assets;

- transferring the income contribution of the intangible assets into present value with appropriate discount rate, which is then added-up to determine the market value of the intangible assets.

(III) Determination of principal valuation parameters

1. Determination of lifetime

Referring to the life cycle of foreign and domestic drugs, combined with the treatment technology and treatment methods of drug indications of intangible assets, the supply and demand of similar drugs in the market, the drug development cycle and other factors, the economic lifetime of the intangible assets under this valuation will last at least 10 years from the launch of drugs in the market. Considering that (i) Liraglutide is still in the clinical stage and has not been approved for launch in the market, with the marketization expected to be in 2023 based on the clinical progress, the forecast period is from 31 July 2019 to 31 December 2032; and (ii) Rongliflozin L-Pyroglutamic Acid is still in the clinical stage and has not been approved for launch in the market, and the core patent protection period under the earliest application in respect of the product expires until 2034 given the strong correlation between the lifetime of new drug and the patent expiration, the forecast period is therefore from 31 July 2019 to 31 December 2034.

Please refer to the table below for the progress of the application for the approval number of Liraglutide and Rongliflozin L-Pyroglutamic Acid submitted by Sunshine Lake Pharma and the estimated approval date.

No.	Name of Product	Applicant and intended applicant	Application stage	Application and intended application date	Expected approval date
1	Liraglutide	Sunshine Lake Pharma Co., Ltd.	Under clinical trial stage, no application for the approval number submitted	2022	2023
2	Rongliflozin L-Pyroglutamic Acid	Sunshine Lake Pharma Co., Ltd.	Phase III clinical trial to be planned, no application for the approval number submitted	2021	2022

2. Forecast of the future income

The forecast of the future income is determined by the principal and the tile holder. The valuer has analyzed the forecast statistics and discussed with the principal and the tile holder about the assumptions, hypothesis and progress for relevant forecast.

(1) Forecast of the revenue

1. Forecast of the revenue

1.1 Rongliflozin revenue forecast

1) Sales volume

Given that the SGLT-2 drug category to which Rongliflozin L-Pyroglutamic Acid belongs was launched in Germany and the United Kingdom in 2012 and then in other overseas markets, and it is available in China's market since 2017, the drug category stays at a rapid growth stage as at the valuation reference date as far as China's market is concerned. Based on the sales data of products of the SGLT-2 drug category in similar overseas markets from 2014 to June 2019 provided by IMS database, the valuer calculates the base of compound growth rate as 78%. With reference to the environment of segmented markets to which drugs belong respectively, the time of launching, the indication population and other factors, the market capacity for 2019 is determined as 22,912,400 tablets by annualizing the actual sales data of China's market from January to June 2019. The market capacity for 2020 and subsequent years is estimated on the basis of the market capacity for 2019, combined with the compound growth rates in historical years. In view of the development of the treatment technology and the preventive medicine, it is expected that the annual compound growth rate for the forecast years will be on a declining curve, and that the compound growth rate for the later stage of the forecast period (from 2028) will be 50% of that for the earlier stage of the forecast period.

On the basis of market capacity, information of original ground medicine producers in the current segmented market have been collected. According to such information, market share is lower in the first year when a pharmaceutical product enters the market. With the help of marketing activities, the market share is expected to grow year on year in the forecast period, with nine expected market competitors and the highest market share of about 11% in 2028 and 2029; in the later stage of the forecast period, market share is declining year on year considering the keen market competition.

For the market capacity forecast, IMS data shows that the compound growth rate for products of the SGLT-2 drug category in China's market will be about 287%, way higher than the 78% adopted for the earlier stage of the forecast period. As to the market capacity for 2019, the sales volume of SGLT-2 drug category in China's market as of September 2019 is approximately 20,450,000 tablets, equivalent to 89% of the forecast for the whole year.

2) Unit sales price

The unit sales price for 2019 is determined as RMB10.5 per tablet for Rongliflozin L-Pyroglutamic Acid from January to June 2019, based on the average sales price of similar products available in China's market (mainly Empagliflozina, Canagliflozin and Dapagliflozin). In view of the price competition in the pharmaceutical market, the decline of unit price for the forecast years is determined as about 1.5%, with reference to the decline of average unit price for similar products in the market during historical years.

Rongliflozin: The average unit price of Dapagliflozin, Empagliflozina and Canagliflozin, being all products competing with Rongliflozin L-Pyroglutamic Acid, is RMB16.29 per tablet, RMB13.88 per tablet and RMB12.78 per tablet, respectively. The average unit price for these three competing products is RMB14.31 per tablet. The price of Rongliflozin L-Pyroglutamic Acid from January to June 2019 determined in the valuation is RM10.5 per tablet, which is about 26.64% lower than the average price of the three competing products above. The data adopted in the forecast is lower and is therefore reasonable.

Liraglutide: The latest tender price of Liraglutide is RMB410 per pen, while the price of Liraglutide from January to June 2019 determined in the valuation is RMB290.6 per pen, which is 29.12% lower than the latest tender price. The data adopted in the forecast is lower and is therefore reasonable.

In summary, the revenue forecast is based on relevant data of similar products and competing products provided by IMS database, with consideration to the segmented industry, the lifetime and related risks, and has fairly reflected the market conditions and the actual development of the products.

2. Forecast of costs

Operating costs represent production costs and subsequent research and development investment expenditures in respect of drugs. Production costs are determined by referring to the gross margins of Pharm HEC from 2017 to January to June 2019, while subsequent research and development expenditures (expensed portions) are determined by the current research progress and future plans.

Based on estimates, the expected revenues in the profit forecast are as follows:

In RMB'0,000

Name of Product	Revenue Forecast							
Rongliflozin L-Pyroglutamic Acid	August to December 2019	2020	2021	2022	2023	2024	2025	2026
	-	-	-	1,152.67	3,748.40	13,164.69	34,676.64	81,191.54
	2027	2028	2029	2030	2031	2032	2033	2034
	178,219.74	293,089.16	401,663.59	458,716.03	502,917.33	516,916.71	472,271.80	323,612.08
	August to December 2019	2020	2021	2022	2023	2024	2025	2026
Liraglutide	-	-	-	-	1,506.00	3,913.82	11,188.40	23,988.16
	2027	2028	2029	2030	2031	2032		
	36,581.69	52,300.03	47,854.19	41,049.64	31,300.13	17,899.64		

As shown in the table above, the revenue will reach RMB1,500 million, RMB2,500 million and RMB3,500 million in three consecutive years starting from 2027.

The wind data shows that similar listed companies involving in innovative drugs and biopharmaceuticals record gross margin of about 80%. The gross margin of Pharm HEC for 2017, 2018 and January to June 2019 is 82%, 84% and 85% respectively, taking a steady growth. In selecting the average data for historical years, the valuation has taken into consideration the possible risks and fluctuations in the production process, which reflects the actual market development and the actual business environment for the drugs.

3. Tax and surcharge

The tax and surcharge of Pharm HEC include urban maintenance and construction tax, education surcharge and local education surcharge.

The tax and surcharge for the forecast years are determined based on the revenue of the forecast period, considering the tax rate applicable on the valuation reference date.

The applicable tax rate for Pharm HEC as at the valuation reference date is set out as below:

Tax	**Rate**
Value-added tax	13%
Urban maintenance and construction tax	7%
Education surcharge	3%
Local education surcharge	2%

4. Sales expenses

Sales expenses mainly include the salaries of sales personnel, travelling expenses, academic promotion fees and other expenses. The valuer determines the amount of future sales expenses based on the profit forecast table provided by the principal and the title holder, combining with the future marketing strategies of various drugs and referring to the percentage of each kind of sales expenses of products to the revenue of Pharm HEC.

The wind data show that sales expenses disclosed in the 2019 interim report of listed companies in the segmented markets of chemical preparations and biopharmaceuticals account for 33% and 39% respectively of the revenues. The data adopted in the forecast is within a reasonable range.

5. Administration expenses

Administration expenses include the salaries of the management personnel, office expenses, telephone fees and other expenses. Amortization expenses are determined with reference to the time when intangible assets are formed and the accounting policies of Pharm HEC. Other expenses are determined on the basis of the percentage of each kind of administration expenses to the revenue of Pharm HEC after taking account of the development scale and revenue level of the drugs.

The wind data show that administration expenses disclosed in the 2019 interim report of listed companies in the segmented markets of chemical preparations and biopharmaceuticals account for 9% and 7% respectively of the revenues. The data adopted in the forecast is within a reasonable range.

6. Estimates of income contribution of intangible assets

Income Contribution of Intangible Assets = EBITDA – contribution of other assets = EBITDA – contribution of working capitals – contribution of long-term assets – contribution of labor assets

EBITDA = total profit + interest expenses + depreciation and amortization

Among which, the contribution of other assets is as follows:

The contribution of working capitals is estimated comprehensively with the amount of working capitals and their estimated rate of return, among which, the working capital-to-operating income ratio is calculated by considering the collection and payment periods of products and the operating retained monetary capitals, with the amount of working capitals estimated on the basis of expected incomes; the estimated rate of return of the working capitals was calculated by adopting the current one-year loan interest rate of 4.35%.

The contribution of fixed assets is determined by the present value of fixed assets in the forecast period, while the estimated rate of return of fixed assets is calculated by the rate of return of tangible non-current assets of 7.9%.

The contribution of labor is estimated with the amount of labor and its estimated sum rate of return, among which, the amount of labor was determined by the total amount of necessary personnel costs; the estimated rate of return of labor was calculated according to the discount rate of intangible assets.

7. Determination of the discount rate

1) Determination of comparable companies

The selection of comparable companies in this valuation follows the following standards:

(a) the comparable companies shall be profitable in recent years;

(b) the comparable companies shall only issue A shares in RMB;

(c) the businesses of comparable companies shall be involved with the pharmaceutical manufacturing industry, whose principal businesses are related to diabetes.

According to the foregoing standards, we have made the selection through the WIND information system. Among all the A share-listed companies, we have selected the comparable companies in the respective industry segments of innovative drugs and western medicine concept after analysis.

Comparable companies for Rongliflozin L-Pyroglutamic Acid:

No.	Name of Comparable Company	Stock Code
1	Gloria Pharmaceuticals	002437
2	Guangju Energy	000096
3	Salubris	002294

Comparable companies for Liraglutide:

No.	Name of Comparable Company	Stock Code
1	Anke Bio	300009
2	Changchun High & New	000661
3	THDB	600867

As the targets of valuation are still in the clinical trial stage, the profit forecast has taken into consideration the subsequent investment and expenditures from the current research stage to the completion, and has drawn the users' attention to the risk in relation to drug approval numbers.

According to the data of profit forecast, the intangible assets related to the product have satisfactory profitability in the forecast period, and selecting comparable companies with profit records and the profitability close to that of the product can reflect the strong profitability of the pharmaceutical industry, SGLT-2 targets and Liraglutide products. As the target of this transaction is the interest in intangible assets located in Mainland China (excluding Hong Kong, Macao and Taiwan) and the revenue estimated in the profit forecast concentrates in the market of Mainland China, the comparable

companies selected are those that have issued A Shares. According to the principle that the discount rate shall match with the profit forecast, the selection of A Share-listed companies as comparable companies is reasonable.

2) Determination of the discount rate of intangible assets

Discount rate, also known as expected return on investment, is an important parameter in valuation based on the income approach. The discount rate used in this valuation is the return on investment of the intangible assets of the comparable companies.

a) Determination of weighted cost of capital before tax

WACC (Weighted Average Cost of Capital) refers to the expected aggregate return on investment. WACC is the weighted average between the expected return on equity and the return on debentures adjusted for income tax.

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

where: WACC = weighted average cost of capital; E = equity value; Re = expected return on equity; D = value of interest-bearing debt; Rd = expected return on debt; T = corporate income tax rate (15%).

A. Risk free return (Rf)

We calculate the yield of treasury bonds with maturity of 10 to 15 years from the valuation reference date in the Shanghai and Shenzhen stock markets. The average yield of all treasury bonds is taken as the risk-free return of the valuation. The average yield of the above-mentioned treasury bonds (3.74%) is taken as the risk-free return in valuation of intangible assets.

B. Equity risk premium (ERP)

The arithmetic mean or geometric mean of annual return of constituent stocks of CSI 300 Index is used for the calculation of the arithmetic mean or geometric mean of ERP. Having taken into account the fluctuation of China's stock markets, we decide to calculate the ERP for a 10-year

period. In other words, for the return on investment of each constituent stock, its expected return on investment is based on the average return on investment over ten years. Since geometric mean is a better indicator of the growth of yield, we believe it is more practical to use Cn, which is derived from geometric mean, to calculate ERP. The expected EPR of the return in excess in the domestic stock markets is 6.62%.

C. Equity market risk factor of the comparable companies β

Wind is a company in China engaged in the research on β and provides the formula to calculate β. In this valuation, we have applied the β calculator offered by Wind to calculate β of the comparable companies, with CSI 300 Index chosen as the stock market index. The reason of choosing CSI 300 Index is that it is the first cross-market index in the PRC, linking Shanghai and Shenzhen markets. The constituent stocks of the index are also leading stocks in respective industries and have active trading.

D. Return on equity before tax (CAPM)

We adopt the Capital Asset Pricing Model or "CAPM":

Re= (Rf + β×ERP+Rs)/(1-T) (Rs refers to the rate of specific risk excess premium)

The expected return on equity of Rongliflozin L-Pyroglutamic Acid and Liraglutide are calculated to be 14.48% and 15.15% respectively.

E. Return on debt (Rd)

The valuation adopts the prevailing one-year loan rate (4.35%) as the expected annual return on debt.

F. Weighted cost of capital before tax (WACC)

The WACC in respect of Rongliflozin L-Pyroglutamic Acid and Liraglutide are calculated to be 12.72% and 14.89%, respectively.

b) Estimation of the discount rate of intangible assets

The above-mentioned calculation of WACC represents the expected rate of return on all assets of an enterprise. The assets of the enterprise comprise current assets, fixed assets and intangible assets. The rate of return on each type of assets and the weighted average cost of capital can be represented by the following formula:

$$WACC = (W_c \times R_c + W_f \times R_f + W_i \times R_i) * (1 - T)$$

where: Wc: the percentage of current assets (capital) over total assets;

Wf: the percentage of fixed assets (capital) over total assets;

Wi: the percentage of intangible assets (capital) over total assets;

Rc: the expected rate of return on the investment in current assets (capital);

Rf: the expected rate of return on the investment in fixed assets (capital);

Ri: the expected rate of return on the investment in intangible assets (capital);

T: corporate income tax rate (15%).

We believe that the risk of investment in current assets is the lowest; therefore, the expected rate of return is also the lowest. We adopt the average one-year bank loan rates (i.e. 4.35%) as the expected rate of return before tax for investment in current assets. The risk of investment in fixed assets is higher than that of investment in current assets, hence the expected rate of return on such investment is higher than that of investment in current assets. Therefore, we adopt the weighted average ratio between return on equity and return on debt before taxation as the expected rate of return on fixed assets (capital). The return on debt (4.9%) is derived from the interest rate of long-term bank loans with a term of over five years.

The above-mentioned formula is modified as follows:

$$R_i = \frac{\frac{WACC}{(1-T)} - W_c \times R_c - W_f \times R_f}{W_i}$$

Ri refers to the expected rate of return on the investment in intangible assets.

According to the formula for the above calculation of the rate of return on the investment in intangible assets, the rate of return on the investment in intangible assets of Rongliflozin L-Pyroglutamic Acid and Liraglutide are 17.31% and 16.70%, respectively.

According to the Asset Valuation Report on Significant Asset Restructuring of Listed Companies 2018 (《二零一八年度上市公司重大資產重組資產評估分析報告》) released by China Appraisal Society, the average discount rate adopted in projects of significant asset restructuring in 2017 and 2018 are 11.93% and 11.80% respectively. Referring to such report, the rate of return on investment in intangible assets in respect of Rongliflozin L-Pyroglutamic Acid and Liraglutide, being 17.31% and 16.70% respectively, adopted in the valuation is higher than the average, which reflects the high risk and return of the pharmaceutical industry.

In summary, the calculation of the rate of return in respect of intangible assets has considered the macro environment, the development of similar companies in the sectors to which products relating to intangible assets belong and their future business model. The calculation results are within the reasonable range of expected rate of return on intangible assets in the pharmaceutical industry.

1.2 Liraglutide revenue forecast

1) Sales volume

Given that the drug category of GLP-1 receptor target to which Liraglutide belongs was launched in the Europe in July 2009 and then in Japan and the United States, and it is available in China's market since 2011, such category has a relatively long history in China's market and thus serves as a strong reference.

Based on the sales data of Victoza-Liraglutide, the original ground medicine available in China's market, for the last five years provided by IMS database, the valuer calculates the base of compound growth rate as 67%. The market capacity for 2019 is determined as 1,403,000 pens, by annualizing the actual data from January to June 2019, while the market capacity for 2020 and subsequent years is estimated by the combination of the market capacity for 2019 with the compound growth rate. In view of the development of the treatment technology and the preventive medicine related to various drugs, it is expected that the annual compound growth rate will be on a declining curve, and that the compound growth rate for the later stage of forecast period (since 2027) will be 50% of that for the early stage of forecast period.

On the basis of market capacity, from the information of original ground medicine producers and generic drug producers in the current segmented market, market share is lower in the first year when a pharmaceutical product enters the market. With the help of marketing activities, the market share is expected to grow year on year in the forecast period, with 11 expected market competitors and the highest market share of about 9% in 2028; in the later stage of the forecast period, market share is declining year on year considering the keen market competition.

IMS database show that the sales volume of Liraglutide products available in China's market as of September 2019 is approximately 1,160,000 pens, equivalent to 83% of the forecast for the whole year.

2) Unit sales price

The unit sales price is determined as RMB290.6 per pen for Liraglutide from January to June 2019, based on the average sales price of similar products available in China's market (mainly Victoza-Liraglutide). In view of the price competition in the pharmaceutical market, the decline of unit price for the forecast years is determined as about 1.4%, which refers to the decline of average unit price for similar products in the market during historical years.

VII. VALUATION ASSUMPTIONS

(I) General assumptions

1. Transaction assumption: assuming assets to be valued are in the course of transaction and the valuation conducted by the valuer is based on the terms of the transaction in relation to the assets to be valued in a simulated market.

2. Open market assumption: assuming each of the buyer and the seller of the assets traded or proposed to be traded on the market is offered with equal opportunity and time to access to sufficient market information so as to make a rational decision in respect of the function, usage and price of the assets.

3. Specific usage purpose assumption: assuming the transferee of this transaction will use the intangible asset portfolio being valued in specified usage and purpose without material changes in the foreseeable future.

(II) Special assumptions

1. The valuation was based on the specific valuation purpose as set out in the asset valuation report;

2. There will be no material changes in the relevant prevailing laws, regulations or macro-economic situations of the PRC, and there will be no unforeseeable material changes in the external economic environments such as interest rate, taxation basis and rate or policy levies;

3. The related basic information and financial information provided by Sunshine Lake Pharma and Pharm HEC are true, accurate and complete, which include but are not limited to IMS statistics on relevant drugs, intellectual property certificates within the scope of transactions, financial vouchers on relevant historical input, clinical approval information for drugs, audit reports, financial statements and general ledger balance, profit forecast information (profit forecast tables, follow-up input and production input plans, etc.) and forecast explanations, industry research reports, clinical applications of similar drugs, etc.;

4. The financial statements and transaction data of comparable companies referred by the valuer are true and reliable, which include assets and liabilities, operating gains and losses for historical years, etc.;

5. The related basic information and financial information provided by the title holder and the principal are true, accurate and complete;

6. The financial statements and transaction data of comparable companies referred by the valuer are true and reliable;

7. The valuation only covers the scope set out in the asset valuation application list submitted by the principal and the title holder without considering contingent asset or contingent liability of the principal and title holder which are not set out in such list;

8. This valuation assumes that the drug approval numbers from the National Medical Products Administration will be obtained by the title holder within the expected time, and manufacturing and sale will be commenced as expected;

9. This valuation assumes that intangible assets generate evenly net cash flow throughout the year.

If any of the event inconsistent with assumption abovementioned occurs, generally this valuation will be invalid.

VIII. CONCLUSION OF VALUATION

This valuation assesses the market value of intangible assets in relation to the production of Liraglutide products and Rongliflozin L-Pyroglutamic Acid as at the valuation reference date by using the multi-period excess earnings method based on the income approach, which amount to RMB142 million and RMB1,915 million respectively in the event that the drug approval numbers in relation to the assessed intangible assets can be obtained as scheduled. Such intangible assets will be of no value if Liraglutide drug and Rongliflozin L-Pyroglutamic Acid drug cannot obtain the drug approval numbers.

National Healthcare Security Administration has conducted a five-day discussion about drugs to be incorporated into the national medical insurance system since 11 November 2019. As (i) the valuation reference date is 31 July 2019, and all parameters adopted in the valuation have reflected the value of the Target Assets as at the valuation reference date. During the period from the valuation reference date to the date of the valuation report, (i.e. 15 October 2019), the negotiation for the medical insurance catalog had not yet begun; therefore, it is impossible to predict the impact on the valuation of the Target Assets. As such, the assumption set out in the valuation report that "there will be no material changes in the relevant prevailing laws, regulations or macro-economic situations of the PRC, and there will be no unforeseeable material changes in the external economic environments such as interest rate, taxation basis and rate or policy levies" has taken account of those existing factors to conduct price forecast. The revenue profit forecast of the Target Asset is based on the market levels of similar drugs and thus their valuation is reasonable; and (ii) according to the latest tender price as of 26 December 2019, the average unit price of Dapagliflozin, Empagliflozina and Canagliflozin, which are the products competing with Rongliflozin, is RMB15.97 per tablet, RMB10.74 per tablet and RMB9.42 per tablet, respectively. The average unit price for these three competing products is RMB12.04 per tablet. The price of Rongliflozin from January to June 2019 determined in the valuation is RM10.5 per tablet, which is lower than the average price of the said three competing products. The latest tender price of Liraglutide as of 26 December 2019 is RMB410 per pen, while the price of Liraglutide from January to June 2019 determined in the valuation is RMB290.6 per pen, which is 29.12% lower as compared to its latest tender price.

In summary, given that results of the discussion of the negotiation for the medical insurance catalog has not been released to the public, the determination of the initial price and the decline of unit price of each of the Target Assets for the forecast years in the valuation is reasonable.

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

KPMG

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE TECHNICAL KNOW-HOW OF RONGLIFLOZIN L-PYROGLUTAMIC ACID AND LIRAGLUTIDE ("TARGET ASSETS") HELD BY SUNSHINE LAKE PHARMA CO., LTD.

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

We refer to the discounted future cash flows on which the valuation dated 15 October 2019 prepared by China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司) ("**the Valuation**") in respect of the appraisal of the market value of the Target Assets as at 31 July 2019 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

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

Our Independence and Quality Control

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

We apply Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

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

Basis of Opinion

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

Opinion

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

Other matters

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

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

KPMG
Certified Public Accountants

Hong Kong
6 January 2020

The following is the letter from the Financial Adviser prepared for the purpose of, among others, inclusion in this circular.

China International Capital Corporation Hong Kong Securities Limited
29th Floor, One International Finance Centre
1 Harbour View Street
Central Hong Kong

The Board of Directors
YiChang HEC ChangJiang Pharmaceutical Co., Ltd.
No. 38 Binjiang Road
Yidu, Yichang
Hubei Province
the PRC

6 January 2020

Dear Sirs,

We refer to the announcements of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the "**Company**") dated 13 November 2019 and 27 December 2019 in relation to the proposed acquisition of target products (including Rongliflozin L-Pyroglutamic Acid (焦谷氨酸榮格列淨) and Liraglutide (利拉魯肽)) and all interests, benefits attached and all rights legally entitled, and all obligations assumed in accordance with laws within the PRC (the "**Target Assets**") (the "**Announcements**") and also the Asset Valuation Report dated 15 October 2019 prepared by China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司), the independent valuer of the Company (the "**Independent Valuer**"), in respect of the valuation of the Target Assets (the "**Asset Valuation Reports**"). We understand that the Independent Valuer has prepared the Asset Valuation Reports based on the discounted cash flow method, which is regarded as profit forecast (the "**Forecast**") under Rule 14.61 of the Listing Rules. Unless otherwise defined or if the context otherwise requires, all terms defined in the Announcements shall have the same meaning when used in this letter.

We have reviewed the Forecast included in the Asset Valuation Reports, for which you as the Directors are solely responsible. We have attended discussions with the management of the Company, the management of the Target ("Rongliflozin L-Pyroglutamic Acid (焦谷氨酸榮格列淨) and Liraglutide (利拉魯肽)") and the Independent Valuer regarding the historical performance of the Target, the calculations of the Forecast as well as the qualifications, bases and assumptions set out in the Asset Valuation Reports. We have also considered the report addressed solely to and for the sole benefit of the Directors from the accountant dated 6 January 2020 regarding the calculation of discounted future cash flows on which the Forecast is based, with details set out in Appendix II to this circular. The Forecast is based on a number of bases and assumptions. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the businesses of the Target may or may not achieve as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by the Independent Valuer, for which the Independent Valuer and the Company are responsible, we are satisfied that the Forecast included in the Asset Valuation Report, for which you as the Directors are solely responsible, has been made after due and careful enquiry by you.

The work undertaken by us in giving the above view has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work or this letter.

Yours faithfully,
China International Capital Corporation
Hong Kong Securities Limited
Shu Gao
Executive General Manager of Investment Bank Department

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 misleading.

2. DISCLOSURE OF INTERESTS

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

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

Name	Types of shares	Capacity	Number of shares/ underlying shares held *(shares)*	Approximate percentage of relevant class of share capital *(%)*	Approximate percentage of total issued share capital *(%)*
Directors					
Mr. Tang Xinfa	H Shares	Beneficial owner	65,200 (L)	0.029% (L)	0.014% (L)
Mr. Jiang Juncai	H Shares	Beneficial owner	33,400 (L)	0.015% (L)	0.007% (L)
Mr. Wang Danjin	H Shares	Beneficial owner	33,600 (L)	0.015% (L)	0.007% (L)
Mr. Chen Yangui	H Shares	Beneficial owner	33,200 (L)	0.015% (L)	0.007% (L)
Mr. Li Shuang	H Shares	Beneficial owner	33,400 (L)	0.015% (L)	0.007% (L)

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 *(%)*
Supervisors					
Mr. Wang Shengchao	H Shares	Beneficial owner	16,000 (L)	0.007% (L)	0.004% (L)
Mr. Luo Zhonghua	H Shares	Beneficial owner	33,400 (L)	0.015% (L)	0.007% (L)

(L) – Long position

The calculation is based on the total number of 448,820,050 shares in issue of the Company as at Latest Practicable Date, comprising 226,200,000 Domestic Shares and 222,620,050 H Shares.

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

Substantial shareholders' interests

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

Name of Shareholders	Classes of shares	Capacity	Number of shares/ underlying shares held *(shares)*	Number of underlying shares held under equity derivatives *(shares)*	Approximate percentage of relevant class of share capital *(%)*	Approximate percentage of total issued share capital *(%)*
Guangdong HEC Technology Holding Co., Ltd.	Domestic Shares	Beneficial owner	226,200,000 (L)	–	100% (L)	50.40% (L)
Shenzhen HEC Industrial Development Co., Ltd.*[2]	Domestic Shares	Interest in controlled corporation	226,200,000 (L)	–	100% (L)	50.40% (L)
Shaoguan Xinyuneng Industrial Investment Company Limited[2]	Domestic Shares	Interest in controlled corporation	226,200,000 (L)	–	100% (L)	50.40% (L)
Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd.[2]	Domestic Shares	Interest in controlled corporation	226,200,000 (L)	–	100% (L)	50.40% (L)
Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd.[2]	Domestic Shares	Interest in controlled corporation	226,200,000 (L)	–	100% (L)	50.40% (L)
Mr. Zhang Zhongneng[3]	Domestic Shares	Interest in controlled corporation	226,200,000 (L)	–	100% (L)	50.40% (L)
Ms. Guo Meilan[4]	Domestic Shares	Interest in controlled corporation	226,200,000 (L)	–	100% (L)	50.40% (L)
North & South Brother Pharmacy Investment Company Limited	H Shares	Beneficial owner	78,501,400 (L)	–	35.26% (L)	17.49% (L)
	H Shares	Beneficial owner	75,000,000 (S)	–	33.69% (S)	16.71% (S)
North & South Brother Investment Holdings Limited[5]	H Shares	Interest in controlled corporation	78,501,400 (L)	–	35.26% (L)	17.49% (L)
	H Shares	Interest in controlled corporation	75,000,000 (S)	–	33.69% (S)	16.71% (S)

Name of Shareholders	Classes of shares	Capacity	Number of shares/ underlying shares held *(shares)*	Number of underlying shares held under equity derivatives *(shares)*	Approximate percentage of relevant class of share capital *(%)*	Approximate percentage of total issued share capital *(%)*
Mr. Mo Kit[5]	H Shares	Interest in controlled corporation	78,501,400 (L)	–	35.26% (L)	17.49% (L)
	H Shares	Interest in controlled corporation	75,000,000 (S)	–	33.69% (S)	16.71% (S)
Sanxing Electric (Hong Kong) Company Limited	H Shares	Beneficial owner	13,480,400 (L)	–	6.06% (L)	3.00% (L)
Ningbo Sanxing Medical Electric Co., Ltd.[6]	H Shares	Interest in controlled corporation	13,480,400 (L)	–	6.06% (L)	3.00% (L)
AUX Holdings Co., Ltd.[6]	H Shares	Interest in controlled corporation	13,480,400 (L)	–	6.06% (L)	3.00% (L)
Mr. Zheng Jianjiang[6]	H Shares	Interest in controlled corporation	13,480,400 (L)	–	6.06% (L)	3.00% (L)
Ms. He Yiju[7]	H Shares	Interest in controlled corporation	13,480,400 (L)	–	6.06% (L)	3.00% (L)
Stephen A. Schwarzman[8]	H Shares	Interest in controlled corporation	82,631,578 (L)	–	37.12% (L)	18.41% (L)
The Blackstone Group L.P.[8]	H Shares	Interest in controlled corporation	82,631,578 (L)	–	37.12% (L)	18.41% (L)
Blackstone Dawn Pte. Ltd.[8]	H Shares	Beneficial owner	80,978,946 (L)	–	36.38% (L)	18.04% (L)
Pacific Asset Management Co., Ltd.	H Shares	Investment manager	15,894,400 (L)	–	7.14% (L)	3.54% (L)
LSV Asset Management	H Shares	Investment manager	13,393,400 (L)	–	6.02% (L)	2.98% (L)

(L) – Long position, (S) – Short position

The calculation is based on the total number of 448,820,050 shares in issue of the Company as at the Latest Practicable Date, comprising 226,200,000 Domestic Shares and 222,620,050 H Shares.

Notes:

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

1. The shareholding information of the shareholders of the Company as at 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 Latest Practicable Date, Shenzhen HEC Industrial Development Co., Ltd. owned directly and indirectly 53.32% equity interest in Guangdong HEC Technology Holding Co., Ltd., 27.97% of which is directly owned, therefore Shenzhen HEC Industrial Development Co., Ltd. is deemed to be interested in the Shares held by Guangdong HEC Technology Holding Co., Ltd.

   Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. owned 42.34% equity interest in Shenzhen HEC Industrial Development Co., Ltd. and 58% 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% 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. As at Latest Practicable Date, Mr. Zhang Zhongneng ("Mr. Zhang") owned 99.69% equity interest in Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd., therefore Mr. Zhang is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd.

4. As at Latest Practicable Date, Ms. Guo Meilan ("Ms. Guo") owned 99.51% 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. Ms. Guo is the spouse of Mr. Zhang and is deemed to be interested in the Shares which are interested by Mr. Zhang under the SFO.

5. As at Latest Practicable Date, North & South Brother Investment Holdings Limited owned 100% equity interest in North & South Brother Pharmacy Investment Company Limited and is deemed to be interested in the Shares which are interested by North & South Brother Pharmacy Investment Company Limited. Mr. Mo Kit owned 100% equity interest in North & South Brother Investment Holdings Limited and therefore, he is deemed to be interested in the Shares which are interested by North & South Brother Investment Holdings Limited.

6. As at Latest Practicable Date, Ningbo Sanxing Medical Electric Co., Ltd. owned 100% equity interest in Sanxing Electric (Hong Kong) Company Limited and is deemed to be interested in the Shares which are interested by Sanxing Electric (Hong Kong) Company Limited. AUX Holdings Co., Ltd. and Mr. Zheng Jianjiang owned 32.08% and 16.47% equity interest in Ningbo Sanxing Medical Electric Co., Ltd. respectively.

   Mr. Zheng Jianjiang owned 85% equity interest in Ningbo Yuanhe Electronics Technology Co., Ltd and owned 85% equity interest in Ningbo Yuanxing Industrial Investments Co., Ltd. Also, Ningbo Yuanhe Electronics Technology Co., Ltd and Ningbo Yuanxing Industrial Investments Co., Ltd owned 35% and 65% equity interest in AUX Holdings Co., Ltd. respectively. Therefore, AUX Holdings Co., Ltd. and Mr. Zheng Jianjiang are deemed to be interested in Shares which are interested by Ningbo Sanxing Medical Electric Co., Ltd.

7. As at Latest Practicable Date, Ms. He Yiju is the spouse of Mr. Zheng Jianjiang and is deemed to be interested in the Shares which are interested by Mr. Zheng Jianjiang under the SFO.

8. This represents the Shares to be issued upon the exercise of the conversion right attached to the H Share convertible bonds, which price being initially HK$38 per H Share, subject to adjustment. Stephen A. Schwarzman through The Blackstone Group L.P. and its directly and indirectly controlled entities are deemed to be interested in the unlisted derivatives – convertible instruments in relation to 80,978,946 Shares held by Blackstone Dawn Pte. Ltd., in relation to 464,803 Shares held by Blackstone Dawn Holdings ESC (Cayman) Ltd. and in relation to 1,187,829 Shares held by BCP VII Dawn ESC (Cayman) NQ Ltd.

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

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

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

Name	Positions in the Company	Other interests
Mr. TANG Xinfa	Chairman and non-executive Director of the Company	• Director and general manager of Shenzhen HEC Industrial, the holding company of the Parent Company which is the controlling shareholder of the Company; • Director of Sunshine Lake Pharma, a subsidiary of Shenzhen HEC Industrial; • Director of HEC Pharma Co., Ltd., a subsidiary of Shenzhen HEC Industrial; • Director of Linzhi HEC Pharmaceutical Investment Co., Ltd, a controlling shareholder of HEC Pharma Co., Ltd.; • Vice Chairman of the board of directors of the Parent Company.

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, no Director or supervisor 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

We refer to the announcements dated 10 July 2018, 15 August 2018, 14 December 2018, 25 February 2019 and 12 December 2019 and the circular dated 30 July 2018 of the Company in relation to, among others, (i) the consideration of RMB505,200,000 for the Previous Acquisition; (ii) the consideration of RMB124,700 for the HEC Pharmacy Acquisition; (iii) the consideration of RMB1,626,434,600 for the Proposed Acquisition; and (iv) entering into the Capital Contribution Agreement.

Sunshine Lake Pharma, HEC Pharma Co. Ltd., Yidu HEC Industrial Development Co., Ltd. are all subsidiaries of Shenzhen HEC Industrial.

Due to his positions in Sunshine Lake Pharma, HEC Pharma Co., Ltd. and Shenzhen HEC Industrial., Mr. TANG Xinfa, the chairman and non-executive Director of the Company, is deemed to be interested in the assets acquired/ to be acquired by the Company under the Previous Acquisition, the HEC Pharmacy Acquisition, the Proposed Acquisition and the transaction contemplated under the Capital Contribution Agreement.

We also refer to the announcements dated 8 April 2019, 21 June 2019, 24 July 2019 and 30 October 2019 in relation to, among others, (i) the Entrusted Processing Framework Agreement for the annual cap of approximately RMB15,000,000 for the year ending 31 December 2019; (ii) the Civil Engineering Construction Contract for the annual caps of RMB85,450,000 and RMB85,450,000 for each of the years ending 31 December 2019 and 2020 respectively; (iii) the Capital Contribution Agreement with Yidu Guijun for a total registered capital of RMB50 million and (iv) the Civil Engineering Decoration Construction Contract for the annual caps of RMB10,000,000 and RMB23,930,461 for each of the years ending 31 December 2019 and 2020.

Sunshine Lake Pharma and Yidu Shangchengshuidu Project Construction Co., Ltd. are subsidiaries of Shenzhen HEC Industrial and Mr. CHEN Yangui, an executive Director of the Company, holds more than 30% equity interests in Yidu Guijun.

Due to his positions in Sunshine Lake Pharma and Yidu Shangchengshuidu Project Construction Co., Ltd., Mr. TANG Xinfa, the Chairman and non-executive Director of the Company, is deemed to be interested in the Entrusted Processing Framework Agreement, the Civil Engineering Construction Contract, and the Civil Engineering Decoration Construction Contract. Due to his position as a chairman, a general manager and his direct interests in Yidu Guijun, Mr. CHEN Yangui, an executive Director of the Company, is regarded as having an interest in the Capital Contribution Agreement and the transaction contemplated thereunder.

As at the Latest Practicable Date, save as disclosed in this circular:

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 2018 (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 EXPERTS AND CONSENTS

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

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Gram Capital Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under SFO
KPMG	Certified Public Accountants
China Alliance Appraisal Co., Ltd.	an independent valuer qualified in the PRC

As of the Latest Practicable Date, each of the experts mentioned above: (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and the references to its names included herein in the form and context in which it is respectively included; (ii) has no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and (iii) has no direct or indirect interests in any assets which have been, since 31 December 2018 (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. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there had been no material adverse change in the financial or trading position of the Company since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

9. DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION

A copy of each of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong for a period of 14 days from the date of this circular:

a) the letter from the Independent Board Committee dated 6 January 2020, the text of which is set out on page 33 of this circular;

b) the letter of recommendation from Gram Capital dated 6 January 2020, the text of which is set out on pages 34 to 51 of this circular;

c) the letter from the CICCHKS dated 6 January 2020, the text of which is set out on pages 76 to 77 of this circular;

d) the report from KPMG relating to the calculation of discounted cash flows used in the Valuation Report dated 6 January 2020, the text of which is set out on pages 73 to 75 of this circular;

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

f) the valuation report dated 15 October 2019 of the intangible asset portfolio related to the know-hows of the Target Products prepared by CAA;

g) the Purchase Agreement;

h) the Supplemental Agreement; and

i) a copy of this circular.