
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 and the form of proxy and reply slip 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.

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



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

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 01558)

CONNECTED TRANSACTION

PROJECTS CONTRACTING AGREEMENT

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



A letter from the Board is set out on pages 4 to 13 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 15 to 24 of this circular and a letter from the Independent Board Committee is set out on page 14 of this circular.

The notice of the EGM and the form of proxy for the appointment of proxy to attend the EGM were despatched to the Shareholders on 3 March 2017. Whether or not you would attend the EGM, please fill in the 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 EGM in any event (i.e. by 10:00 a.m. on Thursday, 27 April 2017). The filled and returned form of proxy will have no effects on your vote in person in the EGM or any other postponed meetings. Completion and delivery of the form of proxy will not preclude you from attending and voting in person should you so wish.

24 March 2017

CONTENTS

	Page
DEFINITIONS	1
LETTER FROM THE BOARD	4
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	14
LETTER FROM GRAM CAPITAL	15
APPENDIX — GENERAL INFORMATION	25

DEFINITIONS

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

“API”	active pharmaceutical ingredient, a substance or substance combination used in manufacturing a drug product
“Articles of Association”	the articles of association of the Company (as amended from time to time)
“Board”	the board of Directors of the Company
“Company” or “we”	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
“Domestic Share(s)”	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) subscribed for or credited as fully paid in RMB
“EGM”	the second extraordinary general meeting of the Company to be held on 28 April 2017 at 10:00 a.m.
“Group”	the Company and its subsidiaries
“H Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) listed on the Stock Exchange and is (are) subscribed for and traded in HK dollars
“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. Lee Chi Ming) to advise the independent Shareholders in connection with the proposed connected transaction under the Projects Contracting Agreement
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Projects Contracting Agreement and the transaction contemplated thereunder

DEFINITIONS

“Independent Shareholder(s)”	Shareholders other than the Parent Company, and who are not involved in, or interested in the proposed connected transaction contemplated under the Projects Contracting Agreement
“independent third party(ies)”	a person who, as far as the Directors are aware after having made all reasonable enquiries, is not connected with the Company (within the meaning of the Listing Rules)
“Latest Practicable Date”	17 March 2017, 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 of Hong Kong Limited
“PRC” or “China”	the People’s Republic of China and for the purpose of this circular, excluding the Hong Kong Special Administrative Region of the People’s Republic of China, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Parent Company”	HEC Pharm Co., Ltd.* (宜昌東陽光藥業股份有限公司), a company incorporated in the PRC and the immediate controlling shareholder of the Company as at the Latest Practicable Date
“Projects Contracting Agreement”	the projects contracting agreement entered into between the Company with Yidu Construction on 24 February 2017
“Prospectus”	the prospectus of the Company dated 15 December 2015
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and modified from time to time
“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 approximately 75.00% shareholding interest in the Parent Company as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Yidu Construction”	Yidu Shanchengshuidu Project Construction Co., Ltd., a company incorporated in the PRC and a subsidiary of Shenzhen HEC Industrial
“%”	means per cent

In this circular, unless the context otherwise requires, the terms “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.

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

** 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).*

LETTER FROM THE BOARD



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

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

(Stock code: 01558)

The Board of Directors:

Executive Directors:

Mr. JIANG Juncai

Mr. WANG Danjin

Mr. CHEN Yangui

Non-executive Directors:

Mr. TANG Xinfu (*Chairman*)

Mr. ZHU Yingwei

Mr. MO Kit

Independent Non-executive Directors:

Mr. TANG Jianxin

Mr. FU Hailiang

Mr. LEE Chi Ming

*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:

18/F, Tesbury Centre

28 Queen's Road East

Wanchai,

Hong Kong

24 March 2017

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

PROJECTS CONTRACTING AGREEMENT

I. INTRODUCTION

We refer to the announcement of the Company dated 24 February 2017, in relation to, among other things, the Projects Contracting Agreement. The purpose of this circular is to provide you with (i) further details in relation to the proposed connected transaction under the Projects Contracting Agreement; (ii) the recommendation of the Independent Board Committee in relation to the proposed connected transaction under the Projects Contracting Agreement; (iii) a letter of advice from Gram Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders in relation to the proposed connected transaction under the Projects Contracting Agreement; and (iv) other information required under the Listing Rules.

LETTER FROM THE BOARD

II. PROJECTS CONTRACTING AGREEMENT

1. Background Information

With reference to the Prospectus, in order to expand the pharmaceutical products production plant at Yidu Base Area No. 3 (the “**Expansion Project**”) and construct a new insulin production plant at Yidu Base Area No. 3 (the “**Construction Project**”), the Company has went through tender procedures for the two projects mentioned above. After completion of the tender procedures and the relevant review procedures, the Company decided to engage Yidu Construction, being the successful bidder, as the contractor of the Expansion Project and the Construction Project. On 24 February 2017, the Company entered into the Projects Contracting Agreement with Yidu Construction for the detailed terms and conditions in relation to the Expansion Project and the Construction Project.

2. Tender Procedures and Assessment Criteria

In connection with the Expansion Project and the Construction Project, the Company arranged the invitation tender procedures between 9 January 2017 to 13 February 2017. Pursuant to the Bidding Law of the People’s Republic of China (中華人民共和國招標投標法) and the Measures for the Bid Invitation and Bid Tendering for Construction and Engineering Projects (工程建設項目施工招標投標辦法), for invitation tenders, the tenderer shall issue tender invitations to at least three specified legal persons or other organizations with the capability to undertake construction projects in respect of the tender as well as good reputation and credibility. The tender procedure the Company went through is in compliance with relevant laws and regulations.

In selecting the potential bidders, the Company has consulted the Association of Yidu Construction Enterprises (宜都市建築企業聯合會), a regional construction association jointly established by the local construction enterprises, and considered, among others, the constructors’ licenses and qualifications, relevant industry experience, business scales, sizes and composition of management teams, reputation in the industry and the familiarity with the Company’s business, the Company invited three potential bidders for the tender, including two independent constructors and Yidu Construction. All of the three potential tenders are reputable local constructors with relevant construction qualifications that satisfy the requirements of the Company’s internal regulations on tender procedure (the “**Internal Regulations**”) and experience in undertaking comparable industrial construction projects.

In order to determine the successful bidder, the Company has established, pursuant to its Internal Regulations, an assessment committee comprising five members, including the Company’s deputy general manager in charge of our insulin production plant, the heads of the Company’s construction department, finance division, manufacturing and planning division and an external expert with civil engineer qualification and rich experience in projects construction. The Company believes the diverse and balanced background and experience of members in the assessment committee will contribute to the fair selection process of the tender. The assessment committee will evaluate each potential bidder pursuant to the following criteria:

- (i) the quality of the tender documents submitted: representing 10 points;

LETTER FROM THE BOARD

- (ii) the qualifications and relevant experience of bidders: representing 15 points;
- (iii) time for and quality of construction work: representing 15 points;
- (iv) the construction plan, resources allocated to the projects and environmental-protection and safety guarantee measures: representing 20 points; and
- (v) the tender price: representing 40 points. The bidders will obtain a higher score if they offer a lower price.

According to the evaluation of the assessment committee, Yidu Construction obtained the highest overall score among all the bidders. Thus, Yidu Construction was the successful bidder in this tender. The evaluation result was reviewed and approved by the Company's general manager and independent non-executive Directors.

3. Major Terms of Projects Contracting Agreement

Construction Scope

According to the Projects Construction Agreement, Yidu Construction will provide the Company with construction service, including expanding the Company's pharmaceutical products production plant at Yidu Base Area No. 3 and construct a new insulin production plant for the Company at Yidu Base Area No. 3 as well as certain maintenance services. Details of the constructions items are set out in "Consideration and Pricing Policy" below.

Construction Period

The Expansion Project will commence in May 2017 and the main structure of the construction is expected to be completed by December 2017. The Construction Project will commence in October 2017 and the main structure of the construction is expected to be completed by April 2018.

LETTER FROM THE BOARD

Consideration and Pricing Policy

The total consideration under the Projects Contracting Agreement will be RMB225,000,000, including RMB138,000,000 for the Expansion Project and RMB87,000,000 for the Construction Project. Detailed breakdown of the consideration and the respective construction items for the two projects are set out in the tables below:

(i) Expansion Project

No.	Item	Construction Area (m ²)	Quotation (in RMB)
1	Quality control center	9,854.42	19,812,700.46
2	Pharmaceutical products plant and technique center	20,873	47,725,259.91
3	Granule production center	9,307.3	17,890,122.82
4	Spray drying workshop	1,209.23	2,410,077.54
5	Utilities center	3,053	5,954,580.94
6	Integrated warehouse	16,996.6	32,426,759.50
7	Hazards warehouse	741.76	1,699,726.00
8	Corridor(1)	429.79	1,059,998.00
9	Corridor(2)	369.75	849,044.00
10	Ancillary construction	—	6,704,924.00
11	Fire water tank	2,339.28	796,457.00
12	Sewage collection station and initial rainfall collection pool	4,073.76	1,393,017.00
		Total price	138,722,667
		Total price after discount	138,000,000

LETTER FROM THE BOARD

(ii) Construction Project

No.	Item	Construction Area (m ²)	Quotation (in RMB)
1	Hazards warehouse	720	87,100,903.49
2	Corridor(1)	793.68	1,656,289.00
3	Corridor(2)	824.64	1,977,141.00
4	Ancillary construction	—	2,036,473.00
5	Sewage collection station and rainfall collection pool	4,911.75	3,967,532.00
6	Detecting, monitoring and water pump house	126	1,675,841.00
7	Solvent recovery	2,500	253,319.00
8	Recycling shed	843.64	3,857,047.00
9	Insulin integrated warehouse	18,000	869,509.00
10	API production plant	14,580	29,934,365.31
11	Integrated building	8,140	25,104,132.70
		Total price	87,100,903
		Total price after discount	87,000,000

The consideration under the Projects Contracting Agreement is the bidding price offered by Yidu Construction, the successful bidder, at the tender for the Expansion Project and the Construction Project, which is more favorable than the prices offered by the other two independent third party contractors.

The parties also agree to adjust the fee according to the actual work completed with reference to the Consumption Quota and Uniform Base Price Table for Construction Projects in Hubei Province (《湖北省建築工程消耗量定額及統一基價表》) (the “**Consumption Quota and Uniform Base Price Table**”) issued by the Department of Housing and Urban-Rural Development of Hubei Province in 2008, which was updated in 2013. The Consumption Quota and Uniform Base Price Table provides pre-determined formulas for service fees calculation by setting out each category of fees to be charged and the formula for calculating the fees in different scenarios under each category.

Payment Arrangement

According to the Projects Contracting Agreement, for each project under the Projects Contracting Agreement:

- (i) the construction progress payment shall be paid per month by the Company, equalling to 80% of the construction work completed in such month;
- (ii) upon the completion of each construction project, the Company shall pay up to 90% of the total consideration;

LETTER FROM THE BOARD

- (iii) within 30 days after the final examination and acceptance of construction project and the delivery of complete and qualified construction documents by Yidu Construction, the Company shall pay up to 95% of the total consideration; and
- (iv) the remaining 5% of the consideration shall be reserved as quality warrant and shall be paid by the Company within one month after the expiration of one year from the day immediately after the final examination and acceptance was signed, provided that Yidu Construction has finished all the warrantee work.

4. Information of the Company's production facilities in Yidu

Driven by the increasing market demand for the Company's pharmaceutical products, the Company has recorded a continuous sales growth for its tablets, granules and capsules in the past years. It is anticipated that the current production capacity for tablets, granules and capsules of the production facility in Yidu Base Area No.1 could not satisfy the Company's future production plan. Therefore, the Company proposes to expand its pharmaceutical products production plant at Yidu Base Area No. 3, which currently only supports the production of insulin-related products, to improve its production capacity for tablets, granules and capsules.

Yidu Base Area No.1

Yidu Base Area No. 1, located at No. 38 Binjiang Road, Yidu (宜都市濱江路38號), Hubei Province, the PRC, is the primary production facility and currently produces all of the Company's oral solid formulations (being tablets, granules and capsules). The table below is a summary of Yidu Base Area No. 1's production capacity, production volume and utilisation rates for the year 2014, 2015 and 2016, respectively.

Product	Unit	2014			2015			2016		
		Designed production capacity ¹	Actual production volume	Utilisation rate (%)	Designed production capacity ¹	Actual production volume	Utilisation rate (%)	Designed production capacity ¹	Actual production volume	Utilisation rate (%)
Tablets ²	100,000 tablets	6,000	5,210	86.80%	6,000	4,842	80.70%	6,000	3,460	57.6%
Granules ²	100,000 packets	800	323	40.40%	1,000	894	89.40%	2,500	1,950	78.00%
Capsules ²	100,000 pieces	3,000	466	15.50%	3,000	540	18.00%	3,000	368	12.26%
Freeze-drying powder for injection ³	100,000 vials	200	4.30	2.20%	200	0.10	0.10%	2,000	0	0.00%
APIs	tonnes	3.10	1.30	41.90%	3.10	3.05	98.29%	3.10	2.82	91.11%

Notes:

1. Designed production capacity for a production line is calculated based on 16 working hours per day and 280 effective production days per year with no material breakdown of facilities.

LETTER FROM THE BOARD

2. We have two production lines which can be modified to produce tablets, granules or capsules. For the purposes of determining designed production capacity, we have assumed that: (a) production line 1 is used entirely for the production of tablets (280 effective production days per year at 16 working hours per day); and (b) production line 2 is split as to 160 effective production days per year for the production of granules and 120 effective production days per year for the production of capsules (with each effective production day at 16 working hours per day).
3. We have a low utilisation rate for the production of freeze-drying powder for injection products as this is not one of our key products produced during the Track Record Period. However, it is intended that this production line will be more utilised when we begin commercial production of some of our future injectable form products.

Information of Yidu Base Area No. 3

Yidu Base Area No. 3, located at Lot 3, Baotawan Village, Lucheng Town, Yidu (宜都市陸城鎮寶塔灣村東陽光3號地), the PRC, is the primary production facility for insulin-related products of the Company. Yidu Base Area No.3 is still under further construction and expansion, and the Company intends to continue to use Yidu Base Area No. 3 as the production facility for recombinant human insulin based products.

There are three forms of insulin API (recombinant human insulin, insulin glargine and insulin aspart) under development by the Company, which are expected to develop into six different finished products. As at the Latest Practicable Date, the Company obtained clinical trial approvals for two forms of insulin APIs, namely recombinant human insulin and insulin glargine, and the Company's insulin aspart was under clinical trial stage. The Company expects to obtain the clinic trial approval for insulin aspart by May 2017 and obtain approval for commercial production of insulin APIs by the end of 2018. As the current insulin API production facility in Yidu Area No. 3 could only support the commercial production of recombinant human insulin and is unable to produce insulin glargine and insulin aspart in large volume, the Company proposes to construct a new insulin API production plant so as to meet its production plan once the commercial production of insulin APIs commences.

5. Reasons for and Benefits of the Projects Contracting Agreement

As mentioned above, the Company expects to commence commercial production of insulin APIs from the end of 2018. Through the Construction Project, the Company plans to build up the production capacity in relation to insulin glargine and insulin aspart in addition to the existing production facility for recombinant human insulin. Through the Expansion Project, the Company will be able to increase the production capacity of its production plant so as to meet the increasing demand for its pharmaceutical products as well as expand its product portfolio going forward.

Through the tender procedures, the Company reviewed the tender documents submitted by the bidders. Based on the reviewing results of the assessment committee of the Company, the Company chose Yidu Construction as the contractor for Yidu Construction obtained the highest overall score among all the bidders. As the Company has previously engaged Yidu Construction to provide construction service, more details of which are set out in the section headed "Connected Transactions" section of the Prospectus, the Company also expects Yidu Construction can complete the project within a relatively shorter period as it is more familiar with our business as compared to other independent third parties.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the proposed transaction under the Projects Contracting Agreement is conducted in the ordinary and usual course of business of the Company and on normal commercial terms, and that the terms of the transaction are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

If the resolution regarding the connected transactions contemplated under the Project Contracting Agreement is not approved by the Independent Shareholders at the EGM, the Company will relaunch the tender process for the Expansion Project and the Construction Project and invite three independent third party bidders in accordance with the requirements of the Articles of Association and Internal Regulations.

6. Listing Rules Implication

As at the Latest Practicable Date, the Parent Company directly holds approximately 50.04% equity interest in the Company and thus constitutes a connected person of the Company under Chapter 14A of the Listing Rules. As Shenzhen HEC Industrial directly and indirectly controls approximately 75.00% shareholding interest in the Parent Company and therefore also constitutes a connected person of the Company by virtue of being a holding company of the Parent Company. As Yidu Construction is a subsidiary of Shenzhen HEC Industrial, and therefore constitutes a connected person of the Company under Chapter 14A of the Listing Rules. As such, the transactions contemplated under the Projects Contracting Agreement constitute connected transactions of the Company. As the highest applicable percentage ratio to the transactions under the Projects Contracting Agreement is more than 5%, such transactions are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Due to their respective position in the Parent Company, Mr. Tang Xinfu and Mr. Zhu Yingwei are regarded as having a material interest and have all abstained from voting on the Board resolution approving the Projects Contracting Agreement.

7. Information of the Parties

a) The Company

The Company is a pharmaceutical manufacturing company focusing on the development, manufacturing and sale of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases as well as cardiovascular diseases. The ultimate beneficial owners of the Company are Mr. Zhang Zhongneng and his spouse, Ms. Guo Meilan.

b) Yidu Construction

Yidu Construction is a company incorporated in the PRC in 2004 and is a subsidiary of Shenzhen HEC Industrial. It is primarily engaged in construction business. The ultimate beneficial owners of Yidu Construction are Mr. Zhang Zhongneng and his spouse, Ms. Guo Meilan.

LETTER FROM THE BOARD

III. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising Mr. Tang Jianxin, Mr. Fu Hailiang and Mr. Lee Chi Ming) has been established to advise the Independent Shareholders in connection with the proposed connected transaction under the Projects Contracting Agreement. 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 Projects Contracting Agreement and the transaction contemplated thereunder.

IV. EGM

A notice convening the EGM of the Company to be held at Conference Room, 4/F, Administration Building, Dongyangguang Scientific Park, No. 5 Shangsha Industrial Zone, Chang'an County, Dongguan, Guangdong Province, the PRC at 10:00 a.m. on Friday, 28 April 2017 for the purpose of considering and, if thought fit, approving the proposed connected transaction under the Projects Contracting Agreement was despatched to the Shareholders on 3 March 2017 in accordance with the Articles of Association.

The form of proxy for use for the EGM was despatched to the Shareholders on 3 March 2017 in accordance with the Articles of Association. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Board office at Securities Department, Dongyangguang Scientific Park, No. 5 Shangsha Industrial Zone, Chang'an County, Dongguan, Guangdong Province, the PRC (for holders of Domestic Shares) or to the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares), not less than 24 hours before the time appointed for the EGM (i.e. by 10:00 a.m. on Thursday, 27 April 2017) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending, and voting in person at the EGM or any adjournment thereof if you so desire and, in such event, the instrument appointing a proxy will be deemed to be revoked.

In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM, the register of members of the Company will be closed for registration of transfer of Shares from Wednesday, 29 March 2017 to Friday, 28 April 2017, (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, 29 March 2017 shall be entitled to attend and vote at the EGM. In order for the Shareholders to be qualified for attending and voting at the 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. 5 Shangsha Industrial Zone, 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 Tuesday, 28 March 2017 for registration.

V. VOTING AT THE EGM

As Shenzhen HEC Industrial directly and indirectly controls approximately 75.00% shareholding interest in the Parent Company as at the Latest Practicable Date, the Parent Company is required to abstain from voting on the resolution to be proposed at the EGM to approve the proposed connected transaction under the Projects Contracting Agreement.

LETTER FROM THE BOARD

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

VI. RECOMMENDATIONS

The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the proposed connected transaction under the Projects Contracting Agreement is on normal commercial terms which are fair and reasonable and the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution in relation to the proposed connected transaction under the Projects Contracting Agreement to be proposed at the EGM. The text of the letter from the Independent Board Committee is set out on page 14 of this circular.

VII. OTHER INFORMATION

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

Yours faithfully

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

24 March 2017

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

PROJECTS CONTRACTING AGREEMENT

We refer to the circular issued by the Company to the Shareholders dated 24 March 2017 (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 connected transaction under the Projects Contracting Agreement and to advise the Independent Shareholders in respect of the proposed connected transaction under the Projects Contracting Agreement. 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 connected transaction under the Projects Contracting Agreement is conducted in the ordinary and usual course of business of the Company, on normal commercial terms and is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution approving the proposed connected transaction under the Projects Contracting Agreement at the EGM.

Yours faithfully

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

TANG Jianxin
*Independent Non-Executive
Director*

FU Hailiang
*Independent Non-Executive
Director*

LEE Chi Ming
*Independent Non-Executive
Director*

LETTER FROM GRAM CAPITAL

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



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

24 March 2017

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

Dear Sir/ Madam,

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 Projects Contracting Agreement and transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 24 March 2017 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 24 February 2017, the Company entered into the Projects Contracting Agreement with Yidu Construction, pursuant to which the Company proposed to engage Yidu Construction to provide project constructing service for: (i) the expansion of the pharmaceutical products production plant at Yidu Base Area No. 3 (the “**Expansion Project**”); and (ii) the construction of a new insulin production plant at Yidu Base Area No. 3 (the “**Construction Project**”, together with the Expansion Project, the “**Projects**”). The Expansion Project will commence in May 2017 and the main structure of the construction is expected to be completed in December 2017. The Construction Project will commence in October 2017 and the main structure of the construction is expected to be completed in April 2018.

With reference to the Board Letter, the Projects Contracting Agreement constitutes a connected transaction for the Company and is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Tang Jianxin, Mr. Fu Hailiang and Mr. Lee Chi Ming, being all of the independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Projects Contracting Agreement are on

LETTER FROM GRAM CAPITAL

normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the transactions contemplated under Projects Contracting Agreement 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 Projects Contracting Agreement 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 the opinion letter from the independent financial adviser contained in the circular dated 20 January 2017 in respect of a connected transaction regarding the subscription of new domestic shares of the Company. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as hindrance 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 Projects Contracting Agreement and the transactions contemplated thereunder.

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.

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 Management's representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Projects Contracting Agreement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

LETTER FROM GRAM CAPITAL

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, Yidu Construction, Shenzhen HEC Industrial or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of entering into of the Projects Contracting Agreement. 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 Projects Contracting Agreement, 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.

LETTER FROM GRAM CAPITAL

Set out below is a summary of the consolidated financial information on the Group for the six months ended 30 June 2016 and the two years ended 31 December 2015 as extracted from the Company's interim report for the six months ended 30 June 2016 (the "2016 Interim Report") and annual report for the year ended 31 December 2015 (the "2015 Annual Report"):

	For the six months ended 30 June 2016	For the year ended 31 December 2015	For the year ended 31 December 2014	Change from 2014 to 2015
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	555,629	692,910	440,904	57.16
- Anti-viral drugs	462,384	457,436	199,414	129.39
- Endocrine and metabolic drugs	18,188	39,047	32,514	20.09
- Cardiovascular drugs	40,225	107,083	106,209	0.82
- Others	34,832	89,344	102,767	(13.06)
Profit for the period/ year	214,985	265,750	135,343	96.35

From the above table, we noted that the Group recorded a substantial increase of in revenue and profit for the year ended 31 December 2015 ("FY2015") of approximately 57.16 % and 96.35% respectively as compared to those for the year ended 31 December 2014 ("FY2014"). With reference to the 2015 Annual Report, the growth of the Group's revenue was mainly attributable to the substantial increase in sales of Kewei, being an anti-influenza medicine, as the result of the educational promotion activities for Kewei which constantly enhanced the product's reputation and strengthens market competitiveness.

With reference to the 2016 Interim Report, the Company will continue to focus on the enhancement of quality and economic benefits of its products, to further consolidate and enhance its leading market position of existing products based on the current solid foundation, to further expand its market share by leveraging on the first-mover advantages brought by its key products, and focusing on academic promotion, to enrich alternative marketing efforts and to expand marketing channels based on the overall guidance of the macroeconomic policy. Meanwhile, the Group will continue to expand its product portfolio by diversifying the product lines in therapeutic areas of anti-virus, endocrine, metabolic and digestive diseases.

Furthermore, according to the positive profit alert announcement of the Company dated 7 February 2017 that, based on the currently available unaudited management accounts of the Group and the preliminary assessment by the Company's management, it is expected that the Group will record an increase in profit attributable to equity shareholders of not less than 40% for the year ended 31 December 2016, as compared to the year ended 31 December 2015. The expected growth in profit attributable to equity shareholders is primarily attributed to: (i) the significant increase in the sales volume of Kewei, one of the Company's key products; and (ii) the continuous improvement of the academic promotion activities of the Company.

LETTER FROM GRAM CAPITAL

Information on Yidu Construction

Yidu Construction is a company incorporated in the PRC in 2004 and is a subsidiary of Shenzhen HEC Industrial. It is primarily engaged in construction business. Yidu Construction has over 200 employees, of which three employees hold Grade A Registered Qualification Certificate of Constructor in the PRC (中華人民共和國一級建造師執業資格證書) and five employees hold Grade B Registered Qualification Certificate of Constructor in the PRC (中華人民共和國二級建造師執業資格證書). We understood from the Management that Yidu Construction has extensive experience in pharmaceutical construction projects. For our due diligence purpose, we obtained documents showing the qualification and experience of Yidu Construction.

In addition, the Company has previously engaged Yidu Construction to provide construction service, more details of which were set out in the section headed “Connected Transactions” section of the Prospectus. We also understood from the Management that Yidu Construction provided construction services for the Company regarding the construction of, among other things, 可威原料藥車間 (Kewei API workshops) and API production plant of Yidu Base Area No. 2, 胰島素倉庫 (Insulin Products warehouse) of Yidu Base Area No. 3, etc.

Reasons for and benefits of the Projects Contracting Agreement

As mentioned in the Prospectus, there are three forms of insulin API (recombinant human insulin, insulin glargine and insulin aspart) under development by the Company, which are expected to develop into six different finished products. Thus the Company plans to expand the production capacity in relation to insulin glargine and insulin aspart in addition to the Company’s existing production plant for recombinant human insulin through the Construction Project. In order to meet the increasing demand for the products of the Company and taking into account the expanded product portfolio of the Company going forward, the Company plans to increase the production capacity by the Expansion Project.

We understood from the Management that the Company has obtained Good Manufacturing Practice (GMP) certification for the production of its current pharmaceutical products. All of the production facilities are located in Yidu, Hubei. Yidu Base Area No. 1 is the primary production facility and currently produces all of the Company’s oral solid formulations (being tablets, granules and capsules). Yidu Base Area No. 2 is a production facility for APIs. Yidu Base Area No. 3 is the primary production facility for insulin-related products (which are still under development). The Projects will be developed at Yidu Base Area No. 3.

Set out below are the information of each of the Projects:

The Expansion Project

In order to meet the increasing demand for the products and taking into account the Company’s expanded product portfolio going forward, the Company planned to increase its production capacity by constructing a new production plant at Yidu Base Area No. 3. The new

LETTER FROM GRAM CAPITAL

production plant will have new production workshops, offices, warehouse and ancillary facilities, which are being designed to meet GMP standards and the standards required by the Food and Drug Administration (FDA), a federal agency of the United States of America and the European Medicines Agency (EMA).

Upon completion of the new production plant, the Company expected its annual production capacity for tablets, annual production for capsules and annual production capacity for granules to increase.

We understood from the Management that the Company currently only has two production lines at Yidu Base Area No. 1 that are used for the production of tablets, granules and capsules. The aforesaid two production lines are for multiple purposes, which can be modified to produce tablets, granules or capsules. As the Company has a number of current and pipeline products that are either in capsule or tablet form, the Management considers that the new production plant will provide the Company with greater flexibility to meet future increases in the demand for the Company's products as well as adapting to the Company's increased size of its product portfolio.

The Construction Project

The Company were developing three forms of insulin API (i.e. recombinant human insulin, insulin glargine and insulin aspart), which the Company intended to develop into six different finished products. Accordingly, the Company planned to expand its production capacity in relation to insulin glargine and insulin aspart in addition to its existing production plant for recombinant human insulin. The new insulin production plant at Yidu Base Area No. 3 will focus on the production of insulin glargine and insulin aspart and will have new production workshops, laboratories, offices and other ancillary facilities and will be equipped with advanced production equipments and machines which are being designed to meet GMP standards. Upon completion of the new insulin production plant, the Company expected its annual capacity for insulin glargine and insulin aspart will be increased.

In addition to the existing production line for recombinant human insulin at Yidu Base Area No. 3, the new production plant for insulin glargine and insulin aspart will allow the Company to have adequate production capacity as the expansion of its product portfolio by introducing various pipeline insulin products to the PRC.

With reference to the Board Letter, the Company conducted an invitation tender procedures to select construction service provider for the Projects. Pursuant to the Bidding Law of the People's Republic of China (中華人民共和國招標投標法) and the Measures for the Bid Invitation and Bid Tendering for Construction and Engineering Projects (工程建設項目施工招標投標辦法), for invitation tenders, the tenderer shall issue tender invitations to at least three specified legal persons or other organizations with the capability to undertake construction projects in respect of the tender as well as good reputation and credibility.

In selecting the potential bidders, the Company has consulted the Association of Yidu Construction Enterprises (宜都市建築企業聯合會), a regional construction association jointly established by the local construction enterprises, and considered, among others, the constructors' licenses and qualifications, relevant industry experience, business scales, sizes and composition of

LETTER FROM GRAM CAPITAL

management teams, reputation in the industry and the familiarity with the Company's business. As a result, the Company invited three potential bidders for the tender, including two independent constructors and Yidu Construction. All of the three potential tenders are reputable local constructors with relevant construction qualifications that satisfy the requirements of the Company's internal regulations on tender procedure.

We further understood from the Management that (i) Yidu Construction previously provided construction services to the Group for construction plant in similar nature; and (ii) the Company are satisfied to the previous services as provided by Yidu Construction. Accordingly, the Management also selected Yidu Construction as one of potential bidders. As mentioned above, Yidu Construction provided construction services for the Company regarding the construction of, among other things, 可威原料藥車間 (Kewei API workshops) and API production plant of Yidu Base Area No. 2, 胰島素倉庫 (Insulin Products warehouse) of Yidu Base Area No. 3, etc.

With reference to the Board Letter, as the Company has previously engaged Yidu Construction to provide construction service, the Company also expects Yidu Construction can complete the project within a relatively shorter period as it is more familiar with business of the Group as compared to other independent third parties.

Having considered the above factors as well as that according to the results of evaluation of Assessment Committee (as defined below), among other things, all three bidders obtained similar points in respect of the qualifications and relevant experience of bidders, we do not doubt the fairness and reasonableness in selecting Yidu Construction as one of the potential bidders.

Based on the assessment of the Assessment Committee (as defined below), Yidu Construction obtained the highest score and was selected as the successful bidder.

In light of that (i) the above information of the Projects; (ii) the new production plant under the Expansion Project will provide the Company with greater flexibility to meet future increases in the demand for the Company's products as well as adapting to the Company's increased size of its product portfolio; (iii) the new production plant under the Construction Project will allow the Company to have adequate production capacity as the expansion of its product portfolio by introducing various pipeline insulin products to the PRC; (iv) the background of Yidu Construction and its long-term business relationship with the Company; and (v) Yidu Construction obtained the highest score and was selected as the successful bidder, we concur with the Management that entering of the Projects Contracting Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Projects Contracting Agreement

On 24 February 2017, the Company entered into the Projects Contracting Agreement with Yidu Construction, pursuant to which the Company proposed to engage Yidu Construction to provide project constructing service for the Expansion Project and the Construction Project. The Expansion Project will commence in May 2017 and the main structure of the construction is expected to be completed in December 2017. The Construction Project will commence in October 2017 and the main structure of the construction is expected to be completed in April 2018.

LETTER FROM GRAM CAPITAL

The Projects Contracting Agreement will become effective upon the transactions under the Projects Contracting Agreement is approved by the independent Shareholders at the EGM.

Consideration and payment arrangement

The total consideration under the Projects Contracting Agreement will be RMB225,000,000 (the “**Consideration**”), including RMB138,000,000 for the Expansion Project and RMB87,000,000 for the Construction Project. Detailed breakdown of the Consideration and respective construction items for the Projects are set out under the section headed “Consideration and Pricing Policy” of the Board Letter.

According to the Projects Contracting Agreement, the payment for each project under the Projects Contracting Agreement will be settled in instalments. Details of the payment arrangement are set out under the sub-section headed “Payment arrangement” of the Board Letter.

With reference to the Board Letter, the consideration under the Projects Contracting Agreement is the bidding price offered by Yidu Construction, being the successful bidder at the tender for the Projects.

We understood from the Management that before the commencement of tender procedures, the Company estimated the cost of the Projects (the “**Estimated Cost**”) with reference to, among other things, construction plans of the Projects (i.e. 本項目地基勘察資料、施工圖設計文件), 《湖北省建築工程消耗量定額及統一基價表》 (Consumption Quota and Uniform Base Price Table for Construction Projects in Hubei Province*), price information as published by website of Yichang Construction Engineering Cost Data, etc. For our due diligence purpose, we further discussed with the Management regarding the Estimated Cost as estimated by the Company and understood the above basis. During our discussion, we (i) noted that the construction plans of the Projects were prepared by Sino Phamengin Corporation (中國醫藥集團聯合工程有限公司), which is affiliated to China National Pharmaceutical Group Corporation (the largest state owned pharmaceutical and healthcare company in the PRC) and principally engaged in the provision of technical services, feasibility study, engineering design, project construction supervision, project construction management, EPC, as well as GMP validation consulting service; (ii) obtained Consumption Quota and Uniform Base Price Table for Construction Projects in Hubei Province and noted that such base price table was prepared by Department of Housing and Urban-Rural Development of Hubei Province in 2008 and updated in 2013; and (iii) obtained background information of Yichang Construction Engineering Cost Data. Accordingly, we consider that the Estimated Cost is in line with the market price.

We understood that a bid assessment committee (the “**Assessment Committee**”) was established by the Company through comprising experts of the construction industry and senior management of the Company to determine the successful bidder. The assessment criteria includes, among other things, the quality of the tender documents submitted, the qualifications and relevant experience of bidders, the familiarity with the Company’s business operation, the construction plan for the projects, the bidding price, etc. (the “**Assessment Criteria**”). For our due diligence purpose, we obtained biographies of members of the Assessment Committee and noted that most of the members are

LETTER FROM GRAM CAPITAL

professional in construction or bioengineering and have 13-year to 20-year experience in the relevant industry. Furthermore, we understood from the Management that, the members of Assessment Committee (i) are not close relatives of the bidders or responsible staff of the bidders; and (ii) do not hold any position in the bidders.

Furthermore, we noted that the Assessment Criteria was disclosed in the tender documents (招標文件) and was the same to all bidders. The weight of each of Assessment Criteria was determined by the Company with reference to degree of the Company's concerns on certain factors (e.g. (a) tender price (i.e. service fee); (b) the construction plan, resources allocated to the projects and environmental-protection and safety guarantee measures; and (c) the qualifications and relevant experience of bidders, etc.) of the proposed construction service provider regarding the Projects. The weights in respect of (a) tender price (i.e. service fee); and (b) the construction plan, resources allocated to the projects and environmental-protection and safety guarantee measures, being parts of the Assessment Criteria and the Company's most concerned factors on the proposed construction service provider regarding the Projects, constitute majority of the total weights of the Assessment Criteria. Having considered the aforesaid factors relating to the Assessment Criteria, we do not doubt the reasonableness of the Assessment Criteria and its respective weight.

We obtained the results of evaluation of Assessment Committee regarding the tender documents which were submitted by all bidders and noted that Yidu Construction ranked No. 1 among all the bidders according to the overall score of bidding evaluation by the Assessment Committee. Furthermore, we also obtained tender document as submitted by all bidders, including Yidu Construction, and noted that the consideration as quoted by Yidu Construction (i.e. the Consideration) were (i) lower than bidding prices quoted by other bidders; and (ii) below the Estimated Cost.

In light of that (i) Yidu Construction was selected as service provider through tender procedures; (ii) the Consideration was the bidding price offered by Yidu Construction and set out in its submitted tender document; (iii) the consideration was lower than (a) bidding prices quoted by other bidders; and (b) the Estimated Cost; (iv) the Estimated Cost is in line with the market price; and (v) the biographies of members of the Assessment Committee, we consider that the consideration is fair and reasonable so far as the Independent Shareholders are concerned.

In addition, we also noted that the tender documents (招標文件) set out key terms of the proposed agreements regarding the provision of construction services to the Company. Save for the Consideration, which will be the bidding price to be offered by the successful bidder at the tender procedures for the Projects, other key terms of the proposed agreements have been fixed and are the same to all bidders. The key terms, other than the consideration, of the Projects Contracting Agreement are in line with the terms as set out in the tender documents (招標文件).

In light of the above factors, we are of the view that the terms of the Projects Contracting Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

For other details regarding the Projects Contracting Agreement, please refer to the section headed "Projects Contracting Agreement" of the Board Letter.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into consideration of the factors and reasons as stated above, we are of the opinion that (i) the terms of the Projects Contracting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Projects Contracting Agreement is in the ordinary and usual course of business of the Group and 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 Projects Contracting Agreement and the transactions contemplated thereunder 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.

APPENDIX — GENERAL INFORMATION

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF 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 or short positions of the Directors, supervisors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director/ Supervisor/Chief Executive	Types of Shares	Nature of interest	Number of securities	Approximate percentage of shareholding in the total share capital of the Company	Approximate percentage of shareholding in the relevant class of shares
Mr. Mo Kit ¹	H Shares	Interest in controlled corporation	75,000,000 (L)	16.59%	33.21%

(L) — Long position

Note:

1. Mr. Mo Kit owned 100% equity interest in North & South Brother Investment Holdings Limited and is deemed to be interested in the Shares which are interested by North & South Brother Investment Holdings Limited.

APPENDIX — GENERAL INFORMATION

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 Xinfu	Chairman and non-executive Director of the Company	Director of the Parent Company, Linzhi HEC Pharmaceutical Investment Co., Ltd. and Shenzhen HEC Industrial
Mr. ZHU Yingwei	non-executive Director of the Company	Director of the Parent Company and Linzhi HEC Pharmaceutical Investment Co., Ltd.

4. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or supervisors 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 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

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 2015 (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.

APPENDIX — GENERAL INFORMATION

7. QUALIFICATION OF EXPERT AND CONSENT

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

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

As of the Latest Practicable Date, Gram Capital: (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 2015 (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 2015, the date to which the latest published audited consolidated financial statements of the Company have been 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 18/F, Tesbury Centre, 28 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 24 March 2017, the text of which is set out on page 14 of this circular;
- b) the letter of recommendation from Gram Capital dated 24 March 2017, the text of which is set out on pages 15 to 24 of this circular;
- c) the written consent of Gram Capital referred to in the section headed "Qualification of Expert and Consent" in this appendix;
- d) the Projects Contracting Agreement; and
- e) a copy of this circular.