

HISTORY AND BUSINESS DEVELOPMENT

Our Company was established as a joint stock limited company under the PRC Company Law on 11 May 2015, converting from our predecessor Yichang Changjiang Pharmaceutical Co., Ltd.. The Group mainly engages in the development, manufacturing and sale of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases, cardiovascular diseases and others.

Our Group's history dates back to August 2001, when our predecessor was first established as a foreign-invested company in the PRC with a registered capital of RMB30 million. Shenzhen HEC Industrial and North & South Brother International Investment H.K. Co. Limited ("**North & South Brother (HK)**") were the two shareholders of our predecessor, holding its 75% and 25% equity interest, respectively. Since the establishment of our predecessor and to expand its business operation, Shenzhen HEC Industrial and North & South Brother (HK) undertook several capital injections into our predecessor in proportion to their respective shareholding. As at August 2009, the registered capital of our predecessor was RMB170.8 million.

In December 2009, to streamline the business operation of Shenzhen HEC Industrial, Shenzhen HEC Industrial transferred its 75% equity interests in our predecessor to the Parent Company, which is the main platform for Shenzhen HEC Industrial to carry out its pharmaceutical business, for a consideration of RMB128,100,000, representing the total capital contributed by Shenzhen HEC Industrial in our predecessor at that time.

In January 2015, North & South Brother (HK) transferred its 25% equity interests in our predecessor to North & South Brother Pharma for a consideration of approximately RMB72.08 million. The consideration equals to the amount of the audited net assets value of our predecessor as at 31 October 2014 after deducting any dividend declared before that date. Both North & South Brother (HK) and North & South Brother Pharma are entities incorporated in Hong Kong and indirectly wholly-owned by Mr. MO Kit.

As advised by our PRC legal adviser, the establishment, capital increases and each of the above transfer have been approved by competent authorities and were in compliance with applicable laws and regulations in the PRC.

After completion of the above transfers, our Parent Company and North & South Brother Pharma owned 75% and 25% of the equity interest in our predecessor, respectively. On 15 April 2015, in preparation for the Global Offering, our Parent Company and North & South Brother Pharma signed a promoters' agreement, pursuant to which, our predecessor was converted into a joint stock limited company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Milestones in Our History

We have achieved the following important milestones in our development into a pharmaceutical manufacturing company in the PRC.

- 2001 We entered into the PRC pharmaceutical manufacturing industry by establishing our predecessor in Hubei Province.
- 2006 We are licensed by Oseltamivir Phosphate Licensor to manufacture oseltamivir phosphate products in the PRC.
- 2008 Our Kewei product in granules form was registered with CFDA.
- 2009 Our anti-influenza virus product, Kewei was selected into Central Medical Reserve (中央醫藥儲備基地)
- 2013 Our Kewei recorded the largest market share in the oseltamivir phosphate product in the PRC.
- 2015 Our Company was established as a joint stock limited company upon completion of the Reorganisation.

OUR SUBSIDIARY

Our wholly-owned subsidiary, Yichang HEC Pharmaceutical, was incorporated in the PRC on 8 July 2005 with a registered capital of RMB2 million. It was established as our platform for the promotion and sales of our pharmaceutical products. Since its establishment and up to the Latest Practicable Date, the registered capital of Yichang HEC Pharmaceutical remained unchanged.

OUR DONGGUAN BRANCH OFFICE

The Dongguan branch office of our Company was established on 25 May 2015 in accordance with applicable laws and regulations in the PRC. The business scope of the Dongguan branch office of our Company is for the production, distribution and sales of pharmaceutical products.

REORGANISATION

We underwent our Reorganisation in preparation for the Global Offering. Pursuant to the equity transfer agreement entered into on 12 September 2014, we transferred the entire equity interest in Ruyuan HEC Pharma to our Parent Company for a consideration of RMB100 million, representing the total capital contributed by us in Ruyuan HEC Pharma.

The businesses of Ruyuan HEC Pharma are not inherently related to and do not compete with our business operations. As at the time of the transfer, Ruyuan HEC Pharma was engaged in sales of certain APIs and was loss-making. The APIs sold by Ruyuan HEC Pharma differ from the APIs sold by us in the following ways:

- The APIs produced and sold by us are necessary for the production of our core products while the APIs sold by Ruyuan HEC Pharma are not ingredients required for our products; and
- The APIs sold by Ruyuan HEC Pharma cannot substitute any of those APIs produced and sold by our Company.

Accordingly, we disposed of Ruyuan HEC Pharma to our Parent Company so as to focus on our core business operations.

Non-competition Agreement

We have entered into a non-competition agreement with our Controlling Shareholders. Pursuant to the non-competition agreement, each of the Controlling Shareholders has agreed not to, and to procure its subsidiaries (other than our Group) not to, compete with us in our businesses. Please see the section headed “Relationship with our Controlling Shareholders” for detail.

Approvals

The Reorganisation was approved by relevant PRC authorities. Our PRC legal adviser confirmed that we had obtained all necessary approvals from the relevant PRC government authorities with respect to the Reorganisation.

BACKGROUND OF OUR FOUNDER

Our founder, Mr. Zhang, is a successful entrepreneur in various industries in the PRC, including the manufacturing and supplying of pharmaceuticals and aluminium products, new energy and electric materials. Mr. Zhang started his business in 1996 by establishing Shenzhen HEC Industrial, focusing on the electric material market, and gradually expanded his businesses into new energy, electric materials, pharmaceutical manufacturing, cultural tourism, investment management and other industries. Mr. Zhang attaches great importance to the value of research, and established a research institute covering areas of pharmaceuticals, new energy and new electrical material. As at the Latest Practicable Date, Mr. Zhang and Ms. Guo, the spouse of Mr. Zhang, through Shenzhen HEC Industrial, indirectly controls approximately 35.83% of the equity interests in Guangdong HEC Technology. Guangdong HEC Technology is a company listed on the Shanghai Stock Exchange and is mainly engaged in the supplying of electric materials, new materials and new energy. Immediately upon completion of the Global Offering and assuming no exercise of the Over-allotment Option, our ultimate Controlling Shareholders, Mr. Zhang and Ms. Guo, through our Parent Company, will control approximately 49.93% of our equity interest.

Mr. Zhang does not hold any directorship or senior management roles in our Group or in Guangdong HEC Technology. Mr. Zhang has chosen not to hold any directorship or senior management roles in our Company as he believes that our Company has a management team consisting of high-calibre personnel with sufficient experience in the relevant business. As a successful entrepreneur in the PRC, Mr. Zhang has diversified business interests and he would like to avail himself of more time and energy in research and developing business strategies as well as venturing into new business opportunities. Mr. Zhang has confirmed to our Company that neither himself nor any of his immediate family members are in any way prohibited from acting as director of a listed company in Hong Kong or have been the subject of any regulatory probe relating to their respective integrity or competence.

PRE-IPO INVESTMENT

On 5 June 2015, Ample Market Investment Limited, Champion Zone Investment Limited, M.R. Pharma (H.K.) Limited, Splendid Healthcare Limited, Watertower Investment Limited and Wealth Strategy Holding Limited (collectively, the “**Pre-IPO Investors**”) and our Company entered into a capital increase agreement (the “**Pre-IPO Investment Agreement**”) for the purpose of implementing the Pre-IPO Investment.

Our Directors are of the view that the Pre-IPO Investment will broaden our Shareholders’ base and further improve our corporate governance and internal control, which in turn will benefit the Company and our Shareholders as a whole.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Subscription for Shares under the Pre-IPO Investment

Pursuant to the Pre-IPO Investment Agreement, the Pre-IPO Investors subscribed for, and the Company issued and allotted 60,527,450 Shares to such Pre-IPO Investors for a consideration of RMB517,086,000. The completion of the Pre-IPO Investment took place on 29 June 2015. Brief details of the Pre-IPO Investment are as follows:

Pre-IPO Investors	Ample Market Investment Limited	Champion Zone Investment Limited	M.R. Pharma (H.K.) Limited	Splendid Healthcare Limited	Watertower Investment Limited	Wealth Strategy Holding Limited
Number of Shares subscribed	23,847,914	11,959,765	8,193,843	7,161,536	5,852,745	3,511,647
Total consideration to be paid under the pre-IPO Investment Agreement ⁽¹⁾ (RMB)	203,732,730	102,172,270	70,000,000	61,181,000	50,000,000	30,000,000
Basis of determination of consideration	The consideration was arrived at through arm's length negotiation between the parties with reference to a post-money valuation of our Group of RMB3.08 billion.					
Effective purchase cost per Share	RMB8.5430					
Payment date	29 June 2015					
Percentage shareholding of the Pre-IPO Investor immediately following completion of the Pre-IPO Investment	6.61%	3.32%	2.27%	1.99%	1.62%	0.97%
Percentage shareholding of the Pre-IPO Investor immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised)	5.29%	2.65%	1.82%	1.59%	1.30%	0.78%
Discount to the mid-point of indicative offer price	35.73%					
Use of proceeds	The Pre-IPO Investment Agreement was silent on the use of proceeds ⁽²⁾ .					
Lock-up	The Shares subscribed by the Pre-IPO Investors will be subject to one-year's lock-up starting from the Listing Date as required under the PRC Company Law.					
Public float	The Pre-IPO Investors will hold unlisted foreign Shares immediately upon completion of the pre-IPO Investment. Upon Listing, the unlisted foreign Shares will be converted into H Shares to be listed and traded on the Stock Exchange. After conversion, those Shares subscribed by the Pre-IPO Investors pursuant to the Pre-IPO Investment will be counted as part of the public float of the Company.					

Notes:

- (1) All amounts are paid in foreign currency. The actual total amount received was RMB8,000 higher than the amount prescribed under the Pre-IPO Investment Agreement. The reason for such immaterial discrepancy is due to change in exchange rate.
- (2) We intend to use the proceeds (i) to settle part of the consideration under the agreement with Sunshine Lake Pharma in relation to yimatasvir phosphate and follow-up direct anti-viral agent compounds; (ii) to purchase raw materials required for our business operation; (iii) to repay outstanding loans and (iv) for general working capital purposes. As at the Latest Practicable Date, an aggregate amount of RMB292,822,842 had been used, among which, RMB290,000,000 was used to settle the consideration under the agreement with Sunshine Lake Pharma in relation to yimatasvir phosphate and follow-up direct anti-viral agent compounds and RMB2,822,842 was used for the purchase of raw materials required for our business operation.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

No special right or obligation was attached to the pre-IPO Investment.

Background of our Pre-IPO Investors

Ample Market Investment Limited is a company incorporated in Hong Kong in 2012, which is principally engaged in the business of investment holding. Ample Market Investment Limited is directly wholly-owned by Silver Knight Investment Ltd. (Cayman). New Horizon Master IV Investment Ltd. (Cayman), Morgan Creek Partners Co-Investment Fund III, LP, Hattera Master Fund, LP., Morgan Creek Partners VI LP and Apsif Investment Ptd Ltd held 45%, 1.92%, 1.92%, 0.96% and 50.2% of the equity interest in Silver Knight Investment Ltd. (Cayman).

Champion Zone Investment Limited is a company incorporated in Hong Kong in 2012, which is principally engaged in the business of investment holding. Champion Zone Investment Limited is directly wholly-owned by Kingsley Investment Ltd. (Cayman), which was in turn indirectly wholly-owned by Raison Capital. L.P. (Cayman).

M.R. Pharma (H.K.) Limited is a company incorporated in Hong Kong in 2005 which is principally engaged in pharmaceutical and intermediate international trading. Its ultimate controlling shareholder is Mr. Hon To.

Splendid Healthcare Limited is a company incorporated in 2015 in Hong Kong, which is principally engaged in investment business. Its ultimate controlling shareholder is China Everbright Limited, a Hong Kong listed company.

Watertower Investment Limited is a company incorporated in Hong Kong in 2014, which is principally engaged in investment business. Its ultimate controlling shareholder is Mr. CHENG Lam Tung, Don.

Wealth Strategy Holding Limited is a company incorporated in Hong Kong in 2014, which is principally engaged in investment business. Its ultimate controlling shareholder is Mr. Kung Hung Ka.

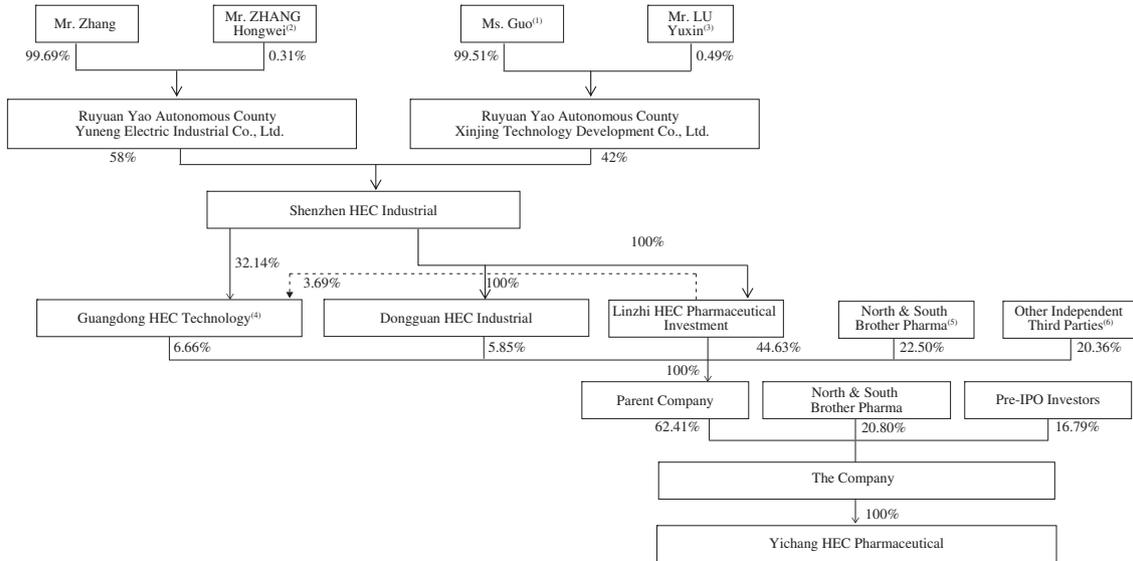
To the best knowledge of our Directors, each Pre-IPO Investor is an Independent Third Party to the Company and the Controlling Shareholders (other than being Shareholder of the Company pursuant to the Pre-IPO Investment Agreement). To the best knowledge and belief of our Directors, the Pre-IPO Investors made such investments in our Group based on their expectations of our growth potential and prospects.

Our Directors confirm that the Pre-IPO Investment was entered into on normal commercial terms. The Sole Sponsor is of the view that the Pre-IPO Investment is in compliance with the Interim Guidance on Pre-IPO Investments (HKEx-GL29-12), Guidance Letter on Pre-IPO Investments (HKEx-GL43-12) and Guidance Letter on Pre-IPO Investments in Convertible Instruments (HKEx-GL44-12).

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OUR CORPORATE STRUCTURE

The following chart sets out our ownership and corporate structure as at the Latest Practicable Date:

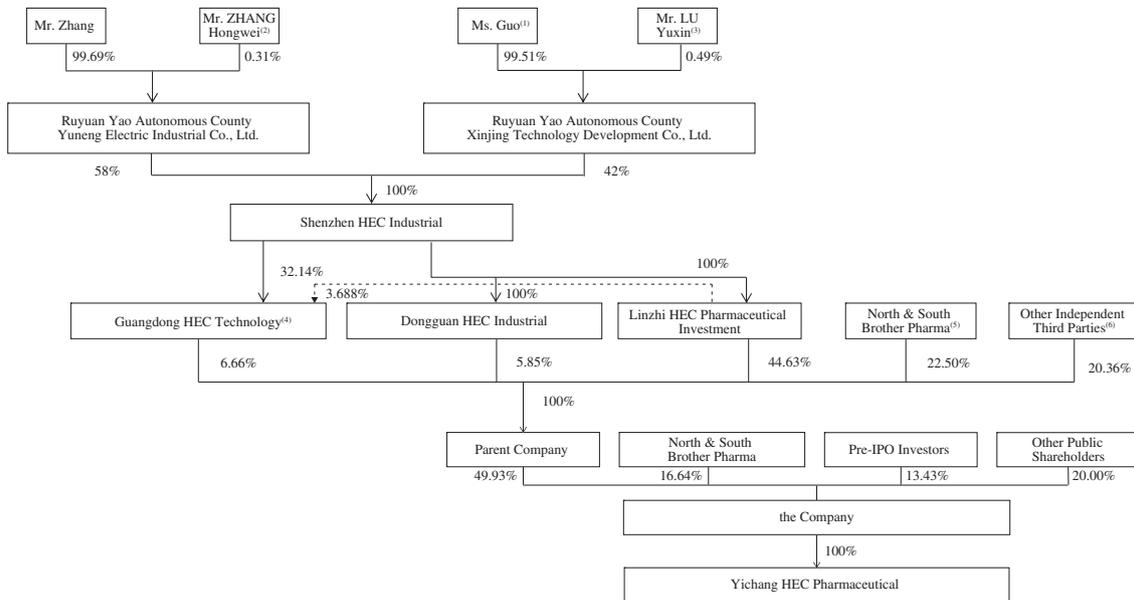


Notes:

- (1) Ms. Guo is the spouse of Mr. Zhang.
- (2) Mr. ZHANG Hongwei is an Independent Third Party. Mr. ZHANG Hongwei currently acts as a director and the general manager of Guangdong HEC Technology, a company controlled by Mr. Zhang.
- (3) Mr. LU Yuxin is the chairman of board of directors of our subsidiary. He also acts as a director and the general manager of Shenzhen HEC Industrial and the chairman of the board of directors of our Parent Company.
- (4) The shares of Guangdong HEC Technology are listed and traded on the Shanghai Stock Exchange (stock code: 600673).
- (5) North & South Brother Pharma is indirectly wholly-owned by Mr. MO Kit.
- (6) Other Independent Third Party shareholders of the Parent Company include Linzhi County Fuguang Investment Management Co., Ltd. (林芝縣蚌光投資管理有限公司), which holds 20.00% equity interest in the Parent Company, and Dongguan Venture Capital Limited Partnership, which holds 0.36% equity interest in the Parent Company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets out our ownership and corporate structure immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised:



Notes:

- (1) Ms. Guo is the spouse of Mr. Zhang.
- (2) Mr. ZHANG Hongwei is an Independent Third Party. Mr. ZHANG Hongwei currently acts as a director and the general manager of Guangdong HEC Technology, a company controlled by Mr. Zhang.
- (3) Mr. LU Yuxin is the chairman of board of directors of our subsidiary. He also acts as a director and the general manager of Shenzhen HEC Industrial and the chairman of the board of directors of Parent Company.
- (4) The shares of Guangdong HEC Technology is listed and traded on the Shanghai Stock Exchange (stock code: 600673).
- (5) North & South Brother Pharma is indirectly wholly-owned by Mr. MO Kit.
- (6) Other Independent Third Party shareholders of Parent Company include Linzhi County Fuguang Investment Management Co., Ltd., which holds 20.00% equity interest in the Parent Company, and Dongguan Venture Capital Limited Partnership, which holds 0.36% equity interest in the Parent Company.