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YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司

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

(Stock Code: 01558)

REVISION OF ANNUAL CAP OF CONTINUING CONNECTED TRANSACTION

References are made to the (i) the announcement of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 27 April 2022; (ii) the circular of the Company dated 2 August 2022 (the “**Circular**”); and (iii) the announcement of poll results of the 2022 first extraordinary general meeting of the Company dated 22 August 2022 (“**EGM**”) in relation to, *inter alia*, the entering into of the Packaging and Production Materials Purchase Framework Agreement. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the Circular.

The revision of Original Annual Cap under the Packaging and Production Materials Purchase Framework Agreement

As disclosed in the Circular, on 27 April 2022, the Company and Shenzhen HEC Industrial entered into a framework agreement, pursuant to which the Company agreed to purchase packaging materials for packaging and production of the drugs manufactured by the Group from Shenzhen HEC Industrial, and the annual cap for the year ending 31 December 2022 under the Packaging and Production Materials Purchase Framework Agreement as approved at the EGM was RMB36,000,000 (the “**Original Annual Cap**”).

Based on the historical sales of the Group’s drugs, the sales of the Group’s core product, Kewei, significantly increases in the fourth quarter which is also the flu peak season. For the year ended 31 December 2021, sales volume of the Group’s drugs during the fourth quarter attributed to around half of the total sales volume of the year. The domestic epidemic prevention and control in China has generally stabilised, the flow of people and daily social activities have gradually returned to normal, and the overall flow of people, the number of diagnosis and treatment activities and the volume of prescriptions in terminal medical institutions have recovered significantly. This is coupled with the peak influenza season in the fourth quarter, when influenza warnings were issued in a number of provinces in China and outpatient surged. As a result, the Group is expected to show a significant increase in drug sales and the use of the required packaging and production materials in the fourth quarter of 2022 as compared to the previous three quarters, as the level of social flow and the number of influenza cases are gradually increasing and the Company’s channel inventory is at normal level.

Historical Transaction Amount

As at the nine months ended 30 September 2022, the transaction amount under the Packaging and Production Materials Purchase Framework Agreement has amounted to approximately RMB28,767,200, representing approximately 79.9% of the Original Annual Cap with only approximately one-fifth of the Original Annual Cap available for the production to be carried out in the fourth quarter of 2022. In order to satisfy the production needs of the Group for the fourth quarter of 2022, the Directors intend to increase the annual cap under the Packaging and Production Materials Purchase Framework Agreement for the year ending 31 December 2022.

Revision of Original Annual Cap

After taking into account of the expected sales volume of the drugs manufactured by the Group and the inventories of the Group, the Board proposed to revise the Original Annual Cap under the Packaging and Production Materials Purchase Framework Agreement for the year ending 31 December 2022 as follows:

| | For the year ending 31 December 2022 (RMB) |
|--|---|
| Original Annual Cap | 36,000,000 |
| Upward adjustment of annual cap | <u>9,000,000</u> |
| Revised Annual Cap | <u><u>45,000,000</u></u> |

Save for the Revised Annual Cap, all other terms of the Packaging and Production Materials Purchase Framework Agreement as disclosed in the Circular remain unchanged.

The Revised Annual Cap is determined with reference to (1) the historical transaction amounts paid by the Group for procurement of Packaging Materials in the past financial years and the nine months ended 30 September 2022; (2) the expected needs of Packaging Materials for the significant increase in demand of the Group's core product Kewei; (3) the estimated demand for the year ending 31 December 2022; and (4) expected increase in transaction amounts in the future due to the Group's business development.

Pricing policy

When selecting third-party suppliers of Packaging Materials, the Company has obtained quotations from Shenzhen HEC Industrial and at least two independent third-party suppliers. The Directors consider that the prices and terms offered by Shenzhen HEC Industrial was fair and reasonable, on normal commercial terms, and in any event no less favourable to the Group than those available from independent third parties.

The terms of the Packaging and Production Materials Purchase Framework Agreement has not been changed or modified in any way and the major terms (including pricing policy) are set out in the section headed “CONTINUING CONNECTED TRANSACTIONS PROVIDED BY SHENZHEN HEC INDUSTRIAL GROUP TO THE GROUP — 3. Packaging and Production Materials Purchase Framework Agreement” in the Circular.

Reasons for and benefits of the Revised Annual Cap

As disclosed in the Circular, historically, the Group purchased Packaging Materials from Shenzhen HEC Industrial Group for packaging of the drugs manufactured by the Group, and therefore they are familiar with our requirements for such materials. In addition, with better understanding of the Company’s business and communication in a more efficient and effective manner, Shenzhen HEC Industrial Group is able to complete the Company’s purchase orders more efficiently.

The Directors (including the independent non-executive Directors) are of the view that the Revised Annual Cap under the Packaging and Production Materials Purchase Framework Agreement is fair and reasonable, the transactions contemplated thereunder are conducted in the ordinary and usual scope of business of the Group, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL

In addition to the annual review by the auditors and independent non-executive Directors as required under Chapter 14A of the Listing Rules, the Company has implemented or will implement the following internal control and remedial measures:

- (1) The Company will regularly review the transactions to be entered into with Shenzhen HEC Industrial Group to identify any transactions that maybe at risk of exceeding the annual cap and any measures to be introduced in response to such transactions. The finance department is responsible for monitoring the transaction amounts under the Packaging and Production Materials Purchase Framework Agreement at the end of each month, reporting to the Board regarding, among other things, implementation of the Packaging and Production Materials Purchase Framework Agreement and the actual monetary amount of transactions conducted under the Packaging and Production Materials Purchase Framework Agreement at the end of each month from October to December (or more frequently if necessary) for the year ending 31 December 2022. In the event that the total transaction amount reaches 80% of the Revised Annual Cap or is expected to exceed the Revised Annual Cap in the next month, the personnel of the finance department shall notify the Board immediately to determine the appropriate action to be taken, such as re-calculating the annual caps for the relevant year. The Company will commence the process to increase annual caps (including to obtain Shareholders’ approval where applicable) and leave approximately 2 months to complete such process;

- (2) The business planning executives will be responsible for the pricing management and will guide various departments and units to establish the procedures and mechanism of professional price management, so as to ensure that the pricing standard is fair and reasonable, and conforms with the market principle. Market prices will be obtained through, among other things, open tenders/quotations from independent third-party suppliers and service providers, recent transaction prices of the Company with independent third parties, pricing information obtained through subscription service and researches on industry websites. The market price information will be circulated by the procurement department to other departments of the Company to enable them to determine the prices for the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement;
- (3) The operation planning executives will obtain quotation from Shenzhen HEC Industrial Group for each purchase and compare the quotations of similar products and services from at least two other independent suppliers to ensure the price competitiveness of products and services before placing a purchase order(s) with Shenzhen HEC Industrial Group;
- (4) The Company has formulated a series of internal control measures and policies to ensure that the transaction contemplated under the Packaging and Production Materials Purchase Framework Agreement will be carried out in accordance with its terms and the relevant pricing principles. The finance department will inform procurement department the amount of the Revised Annual Cap and monitor from time to time if such Revised Annual Cap is expected to be exceeded. The finance department will also approve the payment to be made to Shenzhen HEC Industrial Group to ensure that the payment terms are in line with the Packaging and Production Materials Purchase Framework Agreement;
- (5) The independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement in accordance with the requirements of the Listing Rules;
- (6) To organise training twice a year and circulate compliance guidance and materials on a regular basis to staff responsible for handling connected transactions so as to remind and refresh their knowledge and understanding on the requirements of the Listing Rules, especially the rules on connected transactions;
- (7) To provide the management of the Company with a list of the connected persons of the Company on a regular basis and making monthly updates thereto;
- (8) To improve the coordination and communication among various departments and subsidiaries of the Company responsible for reporting, monitoring and handling connected transactions, such as provision of regular trainings, sharing of information among operations department, finance department and procurement department; and
- (9) To monitor the transaction amounts of continuing connected transactions with connected persons as well as the transaction amounts for any other transactions to be conducted with connected persons, such as the procurement department will seek advice from financial department and office of the Board on transaction limit before entering

into individual agreements with connected persons, to ensure that better coordination and reporting arrangements of connected transactions will be carried out among various departments of the Company responsible for reporting, monitoring and handling connected transactions.

The Board is of the view that the above methods and procedures can ensure that the pricing and other contractual terms for the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement by the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholder(s) as a whole, and that the transactions contemplated under the Packaging and Production Materials Purchase Framework Agreement are conducted as agreed under the Packaging and Production Materials Purchase Framework Agreement and in compliance with the requirements under Chapter 14A of the Listing Rules.

INFORMATION OF THE PARTIES

The Company

The Company is a pharmaceutical manufacturing company focusing on the development, manufacturing and sales 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 Ms. Guo Meilan and Mr. Zhang Yushuai.

Shenzhen HEC Industrial

Shenzhen HEC Industrial is a company incorporated in the PRC and is a holding company of Sunshine Lake Pharma, a controlling Shareholder of the Company. Shenzhen HEC Industrial, through the companies controlled by it, engages in various businesses, including manufacturing and supplying of pharmaceuticals and aluminum products, new energy and electric materials. The ultimate beneficial owners of Shenzhen HEC Industrial are Ms. Guo Meilan and Mr. Zhang Yushuai.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Sunshine Lake Pharma is entitled to control the exercise of approximately 51.41% of voting rights of the Company and is therefore a controlling shareholder and a connected person of the Company. Shenzhen HEC Industrial is the holding company of the Sunshine Lake Pharma. Therefore, Shenzhen HEC Industrial constitutes a connected person of the Company by virtue of being the holding company of the controlling shareholder of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the transactions between the Company and Shenzhen HEC Industrial constitute connected transactions of the Company.

Pursuant to Rule 14A.54 of the Listing Rules, if the Company intends to revise the Original Annual Cap, the Company is required to re-comply with relevant requirements of Chapter 14A of the Listing Rules in respect of the relevant continuing connected transaction.

As the highest percentage ratio applicable (as defined under the Listing Rules) in respect of the Revised Annual Cap under the Packaging and Production Materials Purchase Framework Agreement is more than 0.1% but less than 5%, such transaction and the Revised Annual Cap contemplated thereunder are subject to the reporting, announcement and annual review requirements but are exempted from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

By virtue of Mr. Tang Xinfu's position as a director and a general manager of Shenzhen HEC Industrial, he is considered as having a material interest and has abstained from voting on the Board resolution approving the Revised Annual Cap under the Packaging and Production Materials Purchase Framework Agreement.

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

Hubei, China
27 October 2022

As at the date of this announcement, the Board consists of Mr. JIANG Juncai, Mr. WANG Danjin, Mr. CHEN Yangui and Mr. LI Shuang as executive directors; Mr. TANG Xinfu as a non-executive director; and Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen as independent non-executive directors.