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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)

CONTINUING CONNECTED TRANSACTIONS

On 10 February 2023, the Company and Shenzhen HEC Industrial entered into: (1) the Leasing and Other Services Framework Agreement; and (2) the APIs and Pharmaceutical Products Sales Framework Agreement.

Implications under the Listing Rules

As at the date of this announcement, 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, as an associate of Sunshine Lake Pharma, 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.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of each of the proposed annual caps of each of the Leasing and Other Services Framework Agreement and the APIs and Pharmaceutical Products Sales Framework Agreement, when aggregated with the transactions entered into between the Group and Shenzhen HEC Industrial Group in the preceeding 12 months pursuant to Rule 14A.81 of the Listing Rules, is higher than 0.1% and less than 5%, such transactions and their proposed annual caps contemplated thereunder are subject to the reporting, annual review and announcement requirements, but are exempted from circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS PROVIDED BY SHENZHEN HEC INDUSTRIAL GROUP TO THE GROUP

Leasing and Other Services Framework Agreement

On 10 February 2023, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to the provision of leasing and other services by Shenzhen HEC Industrial to the Company (“**Leasing and Other Services Framework Agreement**”). The scope of leasing and other services includes leasing of office buildings, leasing of warehouses, provision of inspection and testing services, provision of conference accommodation and other services.

The principal terms of the Leasing and Other Services Framework Agreement are as follows:

Date:	10 February 2023
Parties:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term:	From 10 February 2023 to 31 December 2025
Nature of transaction:	Shenzhen HEC Industrial will provide leasing of office buildings, warehouse, inspection and testing services, conference accommodation and other services (“ Leasing and Conference Services ”) to the Company.
Payment method:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days upon receipt of the invoice issued by Shenzhen HEC Industrial.
Conditions precedent:	The Leasing and Other Services Framework Agreement is conditional upon the due execution of the Leasing and Other Services Framework Agreement by both parties.

Relevant subsidiaries of both parties will enter into separate agreements which will set out the specific terms and conditions according to the principles provided in the Leasing and Other Services Framework Agreement.

Pricing policy

The rent of leasing of office buildings and warehouse charged by Shenzhen HEC Industrial to the Group is determined after arm’s length negotiations by reference to the current rent for the same type of property in the vicinity at the time of entering into the Leasing and Other Services Framework Agreement.

The fee for inspection and testing services charged by Shenzhen HEC Industrial to the Group is determined based on the actually-incurred commissioned research projects, and adopts a “cost-plus” mechanism in which a range of 10%–15% of the profit is charged.

The fee for conference services charged by Shenzhen HEC Industrial to the Group is determined with reference to the actual consumption volume and the price of settlement published by Yichang Shancheng Shuidu Hotel Co., Ltd* (宜昌山城水都大飯店有限公司), a subsidiary of Shenzhen HEC Industrial, based on the unified external settlement price list published by the hotel with the most preferential discount, and are settled based on the actual consumption volume.

Proposed annual caps and determination basis

The Company estimates that the proposed annual caps under the Leasing and Other Services Framework Agreement for the years ending 31 December 2023, 2024 and 2025 are RMB12,383,300, RMB12,999,500 and RMB13,003,300, respectively. In considering the proposed annual caps under the Leasing and Other Services Framework Agreement, the Directors have taken into account a number of factors, including (1) potential increase in rent for properties of similar size in the neighbourhood; (2) the Group's business development strategies; and (3) fair and reasonable market prices and normal commercial terms, which are not higher than the fees charged by third parties for similar services.

Historical transaction amounts

The historical transaction amounts for Leasing and Conference Services from Shenzhen HEC Industrial Group for each of the three years ended 31 December 2020, 2021 and 2022 are set out below:

	For the year ended 31 December 2020			For the year ended 31 December 2021			For the year ended 31 December 2022		
	Historical		Utilized rate	Historical		Utilized rate	Historical		Utilized rate
	Annual Cap	transaction amounts		Annual Cap	transaction amounts		Annual Cap	transaction amounts	
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000	
Historical transaction amounts for Leasing and Conference Services from Shenzhen HEC Industrial Group	<u>80,000</u>	<u>7,500</u>	<u>9.38%</u>	<u>9,826.10</u>	<u>7,179.28</u>	<u>73.06%</u>	<u>27,000</u>	<u>9,423.75</u>	<u>34.90%</u>

As shown in the table above, the utilized rate of the historical annual cap for the year ended 31 December 2022 was approximately 34.90%. The lower utilized rate of the annual cap was due to the continued recurrence of the COVID-19 in the PRC and the impact of the COVID-19 prevention policies, which restricted the movement of population and daily social activities in the PRC to a certain extent, and the academic meetings and marketing activities conducted by the Group by renting the hotels of Shenzhen HEC Industrial Group had been substantially reduced, and the consequent significant decrease in accommodation and catering services provided by Shenzhen HEC Industrial Group, thus the actual transactions amount generated was less than expected.

Reasons for the transaction

Historically, the Group rent properties for its office use and warehouse use from Shenzhen HEC Industrial Group for its daily operations and venue for holding the academic promotion activities operated by Shenzhen HEC Industrial Group as we do not own such facilities. Further, these office buildings, warehouse and hotel venue are located relatively convenient and close to the production base of the Group and the services and price offered by Shenzhen HEC Industrial Group are not inferior than those offered by independent third parties. We have maintained long-term cooperation with Shenzhen HEC Industrial Group and it is beneficial to the Group's operation. Therefore, it is commercially desirable to continue to obtain Leasing and Conference Services from Shenzhen HEC Industrial Group.

Shenzhen HEC Industrial Group are familiar with the Group's business and operational needs, and maintain good cooperation relationship with the Group, which can provide the necessary inspection and testing services for the business development of the Group, the Board therefore is of the view that obtaining inspection and testing services from Shenzhen HEC Industrial Group is beneficial to the steady development of the Group's business.

The Board (including the independent non-executive Directors) is of the view that the terms of the Leasing and Other Services Framework Agreement and the proposed annual caps contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and the proposed annual caps are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS PROVIDED BY THE GROUP TO SHENZHEN HEC INDUSTRIAL GROUP

APIs and Pharmaceutical Products Sales Framework Agreement

On 10 February 2023, the Company entered into a framework agreement in relation to the sales of APIs and pharmaceutical products to Shenzhen HEC Industrial (“**APIs and Pharmaceutical Products Sales Framework Agreement**”).

The principal terms of the APIs and Pharmaceutical Products Sales Framework Agreement are as follows:

Date:	10 February 2023
Parties:	the Company (for itself and on behalf of its subsidiaries); and Shenzhen HEC Industrial (for itself and on behalf of its subsidiaries)
Term:	From 10 February 2023 to 31 December 2025
Nature of transaction:	The Company agreed to sell APIs such as Esomeprazole, Magnesium, Oseltamivir Phosphate, Olanzapine, Entacapone and Febuxostat to Shenzhen HEC Industrial.

Payment method: Shenzhen HEC Industrial will pay the corresponding amount to the Company (via telegraphic transfer) within 90 days upon receipt of the invoice issued by the Company.

Conditions precedent: The APIs and Pharmaceutical Products Sales Framework Agreement is conditional upon the due execution of the APIs and Pharmaceutical Products Sales Framework Agreement by both parties.

Pricing policy

The fees to be charged by the Group to the Shenzhen HEC Industrial Group shall not be lower than the price charged by any independent third parties, and the price will be determined according to customs export weighted average price, and the data from official website of the Center for Drug Evaluation of the National Medical Products Administration* (國家藥品監督管理局藥品審評中心).

Proposed annual caps and determination basis

The Company estimates that the proposed annual caps under APIs and Pharmaceutical Products Sales Framework Agreement for the three years ending 31 December 2023, 2024 and 2025 are RMB18,000,000, RMB20,000,000 and RMB22,000,000, respectively. In considering the proposed annual caps under APIs and Pharmaceutical Products Sales Framework Agreement, the Directors have taken into account a number of factors, including (1) fair price and expected sales volume of each API; (2) the estimated market demand for each of the three years ending 31 December 2023, 2024 and 2025; and (3) the Group's business development strategies.

Historical transaction amounts

The transaction amounts for APIs and Pharmaceutical Products Sales Framework Agreement between the Group and Shenzhen HEC Industrial Group for each of the three years ended 31 December 2020, 2021 and 2022 are set out below:

	For the year ended 31 December 2020			For the year ended 31 December 2021			For the year ended 31 December 2022		
	Annual Cap RMB'000	Historical transaction amounts RMB'000	Utilized rate	Annual Cap RMB'000	Historical transaction amounts RMB'000	Utilized rate	Annual Cap RMB'000	Historical transaction amounts RMB'000	Utilized rate
Historical transaction amounts for the provision of APIs and pharmaceutical products to Shenzhen HEC Industrial Group	<u>8,500</u>	<u>4,193</u>	<u>49.33%</u>	<u>34,580</u>	<u>5,450.43</u>	<u>15.76%</u>	<u>15,012</u>	<u>11,251.83</u>	<u>74.95%</u>

Reasons for the transaction

The principal activities of the Group include the sale of APIs. As part of its ordinary and usual course of business, the Group sells certain APIs and pharmaceutical products to Shenzhen HEC Industrial at prices and terms consistent with the prevailing market prices and conditions of the relevant products.

The Board (including the independent non-executive Directors) is of the view that the terms of the APIs and Pharmaceutical Products Sales Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and the proposed annual caps are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, 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, as an associate of Sunshine Lake Pharma, 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.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of each of the proposed annual caps of each of the Leasing and Other Services Framework Agreement and the APIs and Pharmaceutical Products Sales Framework Agreement, when aggregated with the transactions entered into between the Group and Shenzhen HEC Industrial Group in the proceeding 12 months pursuant to Rule 14A.81 of the Listing Rules, is higher than 0.1% and less than 5%, such transactions and their proposed annual caps contemplated thereunder are subject to the reporting, annual review and announcement requirements, but are exempted from circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. TANG Xinfa, a non-executive Director, is considered to have a material interest in the transactions contemplated between the Group and Shenzhen HEC Industrial Group by virtue of his position as a director and general manager of Shenzhen HEC Industrial, and has abstained from voting on the Board resolution approving the transactions contemplated between the Group and Shenzhen HEC Industrial Group.

INTERNAL CONTROL LEVEL

In addition to the annual review by the auditors and the independent non-executive Directors as required under Chapter 14A of the Listing Rules, the Company has implemented or will implement the following internal control 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 caps and any measures to be introduced in response to such transactions. The

finance department is responsible for monitoring the transaction amounts under the Continuing Connected Transactions at the end of each month, reporting to the Board regarding, among other things, implementation of the Continuing Connected Transactions and the actual monetary amount of transactions conducted under the Continuing Connected Transactions at the end of each quarter between January and September, as well as each month from October to December (or more frequently if necessary). In the event that the total transaction amount reaches 80% of the annual caps or is expected to exceed the annual caps in the next 2 months, 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) and leave approximately 2 to 3 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 Continuing Connected Transactions;
- (3) The operation planning executives will (i) regularly compare with the Group's price list, so as to ensure that the selling price charged to Shenzhen HEC Industrial Group is at least on the same basis and rate of similar products sold by the Group to independent third parties; (ii) 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 Continuing Connected Transactions will be carried out in accordance with the terms of each of the agreement of the Continuing Connected Transactions and the relevant pricing principles. The finance department will inform procurement department the amount of the proposed annual caps of the Continuing Connected Transactions and monitor from time to time if such annual caps is 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 relevant agreement of the Continuing Connected Transaction;
- (5) The independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the Continuing Connected Transactions 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 Leasing and Other Services Framework Agreement and the APIs and Pharmaceutical Products Sales Framework Agreement by the Group are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholder(s) as a whole, and that the transactions contemplated under the Leasing and Other Services Framework Agreement and the APIs and Pharmaceutical Products Sales Framework Agreement are conducted as agreed under the Leasing and Other Services Framework Agreement and the APIs and Pharmaceutical Products Sales Framework Agreement, respectively, 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.

DEFINITIONS

“Board”	the board of Directors of the Company
“Company”	YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (宜昌東陽光長江藥業股份有限公司), a company established in the PRC on 11 May 2015 as a joint stock company with limited liability
“Continuing Connected Transactions”	the Leasing and Other Services Framework Agreement and the APIs and Pharmaceutical Products Sales Framework Agreement and their respective transactions contemplated thereunder
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Shareholder(s)”	shareholder(s) other than Shenzhen HEC Industrial and its associate(s), such as Sunshine Lake Pharma and HEC (Hong Kong) Sales Co., Limited, who are not involved in or interested in the Leasing and Other Services Framework Agreement and the APIs and Pharmaceutical Products Sales Framework Agreement (including their respective proposed annual caps contemplated thereunder)
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holders of ordinary shares 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 a holding company of Sunshine Lake Pharma as at the date of this announcement
“Shenzhen HEC Industrial Group”	Shenzhen HEC Industrial and its subsidiaries

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sunshine Lake Pharma”	Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司), a company incorporated in the PRC on 29 December 2003, a controlling Shareholder of the Company and an indirect non-wholly owned subsidiary of Shenzhen HEC Industrial
“%”	Percentage

In this announcement, unless the context requires otherwise, the terms “associate(s)”, “connected person(s)”, “connected transaction(s)” and “subsidiary(ies)” shall have the meanings ascribed to them under the Listing Rules (as modified by the Stock Exchange from time to time).

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

Hubei, the PRC

10 February 2023

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 the executive Directors; Mr. TANG Xinfa as a non-executive Director; and Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen as the independent non-executive Directors.

* *For identification purposes only*