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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**

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

#### **1. Energy Purchase Framework Agreement**

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to supply of electricity and steam by Shenzhen HEC Industrial (the “**Energy Purchase Framework Agreement**”).

The principal terms of the Energy Purchase Framework Agreement are as follows:

Date	:	27 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 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to purchase electricity and steam power (“ <b>Energy</b> ”) required for its production from Shenzhen HEC Industrial.

- 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 Energy Purchase Framework Agreement is conditional upon the satisfaction of the following conditions precedent:
- (i) the due execution of the Energy Purchase Framework Agreement by both parties; and
  - (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Energy Purchase Framework Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

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 Energy Purchase Framework Agreement.

#### *Pricing policy*

Purchase price for Energy will be determined in accordance with (i) the reply letter from the Price Bureau of Yichang Municipal in relation to the electricity supply price in direct supply district by Yichang HEC Power Plant Co., Ltd.\* (宜昌東陽光火力發電有限公司) (“**Yichang HEC Power Plant**”), a direct non-wholly owned subsidiary of Shenzhen HEC Industrial, from time to time; and (ii) the price for similar enterprises as stipulated in the price list for steam supply to enterprise from Price Bureau of Yichang Municipal from time to time, whereas:

- (a) the electricity supply price in accordance with the benchmark price of RMB0.4161 per kWh, which was approved by the Hubei Provincial Price Bureau in the notice of reasonably adjustment of the electricity tariff structure pursuant to Hubei Provincial Price Bureau (E Jia Huan Zi [2017] No. 92) (鄂價環資[2017]92號文) and the letter from the Yidu Development and Reform Bureau in relation to the electricity supply price in direct supply district by Yichang HEC Power Plant, which stipulates that the power supply tariff in the direct supply zone shall not be lower than the benchmark ongrid tariff of Hubei Province for the same period and shall not be higher than 120% of the benchmark on-grid tariff of the Hubei Province for the same period; and
- (b) the steam supply price is determined with the range of approximately RMB130 per ton to RMB260 per ton, which were the price charged by Yichang HEC Power Plant and Yichang HEC Biochemical Manufacturing Co. Ltd.\* (宜昌東陽光生化製藥有限公司), a subsidiary of Shenzhen HEC Industrial, to the Group historically.

### *Proposed annual caps and determination basis*

The Company estimates that the proposed annual caps under the Energy Purchase Framework Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB50,400,000, RMB56,750,000 and RMB56,750,000, respectively. In considering the proposed annual caps under the Energy Purchase Framework Agreement, the Directors have taken into account a number of factors, including (1) the historical transaction amounts; (2) the Group's estimated production for each of the three years ending 31 December 2023, 2024 and 2025; and (3) the Group's business development.

### *Historical transaction amounts*

The historical transaction amounts for the purchase of Energy 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			Historical			Historical		
	Annual	transaction	Utilized	Annual	transaction	Utilized	Annual	transaction	Utilized
	Cap	amounts	rate	Cap	amounts	rate	Cap	amounts	rate
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Historical transaction amounts for purchase of Energy from Shenzhen HEC Industrial Group	<u>49,518.40</u>	<u>22,396.31</u>	<u>45.23%</u>	<u>55,700</u>	<u>35,679.06</u>	<u>64.06%</u>	<u>56,000</u>	<u>42,769</u>	<u>76.37%</u>

### *Reasons for the transaction*

Historically, the Group purchased Energy from Shenzhen HEC Industrial Group for the daily production of pharmaceutical preparations. The Group does not own any boilers for steam production and does not own any power plant to generate electricity. As the power plant of Shenzhen HEC Industrial Group is close to the production facilities of the Group, it is commercially desirable to continue to purchase Energy from them.

The Board (excluding the independent non-executive Directors, who will give their opinion after taking into account of the recommendation from the Independent Financial Adviser) is of the view that the Energy Purchase Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) 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.

## 2. APIs Purchase Agreement

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to purchase of certain active pharmaceutical ingredients from Shenzhen HEC Industrial (the “**APIs Purchase Agreement**”).

The principal terms of the APIs Purchase Agreement are as follows:

Date	:	27 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 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to purchase certain active pharmaceutical ingredients (“ <b>APIs</b> ”) such as Aripiprazole, Rivaroxaban, Escitalopram Oxalate, Clarithromycin from Shenzhen HEC Industrial.
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 APIs Purchase Agreement is conditional upon the satisfaction of the following conditions precedent:  (i) the due execution of the APIs Purchase Agreement by both parties; and  (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the APIs Purchase Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

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 APIs Purchase Agreement.

### *Pricing policy*

In selecting the APIs suppliers, the Company will obtain quotations from Shenzhen HEC Industrial Group and at least two suppliers who are independent third parties. In addition, as the Company is also engaged in manufacturing of pharmaceutical products, it is well familiar with the market price of relevant APIs required for the production.

The prices and terms offered by the Shenzhen HEC Industrial Group will be fair and reasonable, on normal commercial terms and not higher than those offered by independent third party suppliers to the Group.

*Proposed annual caps and determination basis*

The Company estimates that the proposed annual caps under the APIs Purchase Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB38,946,300, RMB53,786,800 and RMB75,442,100, respectively. In considering the proposed annual caps under the APIs Purchase Agreement, the Directors have taken into account a number of factors, including (1) the historical transaction amounts; (2) the Group's 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 historical transaction amounts for the purchase of APIs 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			Historical			Historical		
	Annual Cap RMB'000	transaction amounts RMB'000	Utilized rate %	Annual Cap RMB'000	transaction amounts RMB'000	Utilized rate %	Annual Cap RMB'000	transaction amounts RMB'000	Utilized rate %
Historical transaction amounts for purchase of APIs from Shenzhen HEC Industrial Group	<u>9,000</u>	<u>8,803</u>	<u>97.81%</u>	<u>32,299.60</u>	<u>22,935.47</u>	<u>71.01%</u>	<u>40,000</u>	<u>29,776.6</u>	<u>74.44%</u>

*Reasons for the transaction*

Historically, the Group purchased certain APIs from Shenzhen HEC Industrial Group for the production of drugs. Shenzhen HEC Industrial Group is one of the largest suppliers in the relevant APIs market. As such, the Group believes that the quality of the APIs provided by the Shenzhen HEC Industrial Group is no less favourable than those offered by other third-party suppliers. It is commercially desirable for us to continue to purchase APIs from Shenzhen HEC Industrial Group due to the facts that (i) their locations are adjacent to the Group, which is more convenient for the transportation of APIs; and (ii) the price and terms offered by them are fair and reasonable and no less favourable than those offered by independent third party suppliers to the Group.

The Board (excluding the independent non-executive Directors, who will give their opinion after taking into account of the recommendation from the Independent Financial Advisor) is of the view that the APIs Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, and the annual caps are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### 3. Packaging and Production Materials Purchase Framework Agreement

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to purchase of specific packaging materials and production materials (“**Packaging Materials**”) for packaging and production of the drugs manufactured by the Group from Shenzhen HEC Industrial (the “**Packaging and Production Materials Purchase Framework Agreement**”).

The principal terms of the Packaging and Production Materials Purchase Framework Agreement are as follows:

Date	:	27 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 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to purchase of the Packaging Materials for packaging and production of the drugs manufactured by the Group from Shenzhen HEC Industrial.
Payment method	:	The Company will pay the corresponding amount to Shenzhen HEC Industrial (via telegraphic transfer) within 90 days after receiving the Packaging Materials and passing the acceptance tests and receipt of the invoice issued by Shenzhen HEC Industrial.
Conditions Precedent	:	The Packaging and Production Materials Purchase Framework Agreement is conditional upon the satisfaction of the following conditions precedent:  (i) the due execution of the Packaging and Production Materials Purchase Framework Agreement by both parties; and  (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Packaging and Production Materials Purchase Framework Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

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 Packaging and Production Materials Purchase Framework Agreement.

#### *Pricing policy*

In selecting suppliers of the Packaging Materials, the Company will obtain quotations from Shenzhen HEC Industrial and at least two suppliers who are independent third parties. The prices and terms offered by the Shenzhen HEC Industrial will be fair and reasonable, on normal commercial terms and no less favourable than those offered by independent third party suppliers to the Group.

#### *Proposed annual caps and determination basis*

The Company estimates that the proposed annual caps under the Packaging and Production Materials Purchase Framework Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB40,600,000, RMB40,600,000 and RMB40,600,000, respectively. In considering the proposed annual caps under the Packaging and Production Materials Purchase Framework Agreement, the Directors have taken into account a number of factors, including (1) the historical transaction amounts; and (2) the Group's estimated demand for each of the three years ending 31 December 2023, 2024 and 2025.

#### *Historical transaction amounts*

The historical transaction amounts for purchase of the Packaging Materials 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			Historical			Historical		
	Annual	transaction	Utilized	Annual	transaction	Utilized	Annual	transaction	Utilized
	Cap	amounts	rate	Cap	amounts	rate	Cap	amounts	rate
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Historical transaction amounts for purchase of Packaging Materials from Shenzhen HEC Industrial Group	<u>62,000</u>	<u>24,659</u>	<u>39.77%</u>	<u>24,150</u>	<u>12,876.41</u>	<u>53.32%</u>	<u>45,000</u>	<u>40,222.6</u>	<u>89.38%</u>



### *Reasons for the transaction*

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 are able to complete the Company's purchase orders more efficiently.

The Board (excluding the independent non-executive Directors, who will give their opinion after taking into account of the recommendation from the Independent Financial Advisor) is of the view that the Packaging and Production Materials Purchase Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) 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.

#### **4. Equipment Purchase and Civil Construction Framework Agreement**

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to purchase of certain equipment and civil construction services from Shenzhen HEC Industrial (the “**Equipment Purchase and Civil Construction Framework Agreement**”).

The principal terms of the Equipment Purchase and Civil Construction Framework Agreement are as follows:

Date	:	27 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 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to purchase certain equipment and civil construction services (“ <b>Equipment and Civil Construction Services</b> ”) from Shenzhen HEC Industrial.
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 Equipment Purchase and Civil Construction Framework Agreement is conditional upon the satisfaction of the following conditions precedent:

- (i) the due execution of the Equipment Purchase and Civil Construction Framework Agreement by both parties; and
- (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Equipment Purchase and Civil Construction Framework Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

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 Equipment Purchase and Civil Construction Framework Agreement.

*Pricing policy*

The price charged by Shenzhen HEC Industrial to the Group for the purchase of equipment adopts a “cost-plus” mechanism in which a range of 10%-15% of the profit is charged. The price of the equipment will be no less favourable than those offered by independent third party suppliers to the Group.

The price charged by Shenzhen HEC Industrial to the Group for the civil construction services adopts a “cost-plus” mechanism in which a range of 5%-10% of the profit is charged.

*Proposed annual caps and determination basis*

The Company estimates that the proposed annual caps under the Equipment Purchase and Civil Construction Framework Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB27,050,000, RMB7,900,000 and RMB7,900,000, respectively. In considering the proposed annual caps under the Equipment Purchase and Civil Construction Framework Agreement, the Directors have taken into account a number of factors, including (1) the business development of the Group; (2) the depreciation rate of the workshop equipment; and (3) the estimated total number of equipment required to be purchased in each of 2023, 2024 and 2025 as estimated by the heads of plants of the Company multiplied by the unit price of the equipment.

### *Historical transaction amounts*

The historical transaction amounts for the purchase of Equipment and Civil Construction 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			Historical			Historical		
	Annual	transaction	Utilized	Annual	transaction	Utilized	Annual	transaction	Utilized
	Cap	amounts	rate	Cap	amounts	rate	Cap	amounts	rate
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Historical transaction amounts for purchase of Equipment and Civil Construction Services from Shenzhen HEC Industrial Group	<u>179,863</u>	<u>105,748</u>	<u>58.79%</u>	<u>62,943.05</u>	<u>41,727.31</u>	<u>66.29%</u>	<u>37,000</u>	<u>24,569.5</u>	<u>66.40%</u>

### *Reasons for the transaction*

The Group needs to purchase equipment necessary for workshop renovation to carry out its business. Specialized in production of Equipment and Civil Construction Services, Shenzhen HEC Industrial is familiar with the business and operation requirements of the Group, and maintains a good long-term cooperative relationship with the Group, which can provide the Group with the necessary Equipment and Civil Construction Services stably. Therefore, the Board believes that the Group's purchase of the Equipment and Civil Construction Services from Shenzhen HEC Industrial is beneficial to the steady development of the Group's business.

The Board (excluding the independent non-executive Directors, who will give their opinion after taking into account of the recommendation from the Independent Financial Advisor) is of the view that the Equipment Purchase and Civil Construction Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) 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.

## 5. Entrusted Processing Framework Agreement

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to obtaining the pharmaceutical processing services provided by Shenzhen HEC Industrial (the “**Entrusted Processing Framework Agreement**”).

The principal terms of the Entrusted Processing Framework Agreement are as follows:

Date	:	27 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 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to purchase processing services (the “ <b>Processing Services</b> ”) for its certain pharmaceutical products, including Olmesartan Tablets, Moxifloxacin Tablets, Clarithromycin Tablets, Aripiprazole Tablets, Levofloxacin Tablets, Rivaroxaban Tablets, Duloxetine Enteric-coated Capsules, Escitalopram Oxalate Tablets, Xadiafil Tablets, Aripiprazole Orally Disintegrating Tablets, Entacapone Tablets, Rongliflozin and other APIs from Shenzhen HEC Industrial.
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 Entrusted Processing Framework Agreement is conditional upon the satisfaction of the following conditions precedent:  (i) the due execution of the Entrusted Processing Framework Agreement by both parties; and  (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Entrusted Processing Framework Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

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 Entrusted Processing Framework Agreement.

#### *Pricing policy*

The price of the processing fee payable by the Group to Shenzhen HEC Industrial will be no less favourable than those offered by independent third party processing service providers and a “cost-plus” mechanism is adopted. In addition to the necessary costs and expenses incurred for the processing services, Shenzhen HEC Industrial Group charges the Group an additional fee within approximately 10%-20% of the processing fee.

#### *Proposed annual caps and determination basis*

The Company estimates that the proposed annual caps under the Entrusted Processing Framework Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB94,805,500, RMB108,832,000 and RMB139,468,200, respectively. In considering the proposed annual caps under the Entrusted Processing Framework Agreement, the Directors have taken into account a number of factors, including (1) increasing demand due to successful bidding under centralized volume-based drug procurement; and (2) the Group’s business development strategies. As there is a significant increase in successful bidding under centralized volume-based drug procurement of the Company in 2022 than 2021 in general, the Company determines the maximum transaction amount for each of the three years ending 31 December 2023, 2024 and 2025 according to the growth rate of the relevant products in general.

#### *Historical transaction amounts*

The historical transaction amounts for entrusting of Shenzhen HEC Industrial Group to carry out processing services for its certain pharmaceutical products 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			Historical			Historical		
	Annual	transaction	Utilized	Annual	transaction	Utilized	Annual	transaction	Utilized
	Cap	amounts	rate	Cap	amounts	rate	Cap	amounts	rate
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Historical transaction amounts for entrusting of Shenzhen HEC Industrial Group to carry out Processing Services	119,523.30	81,149	67.89%	130,330.70	52,628.78	40.38%	103,066.2	73,139.7	70.96%

### *Reasons for the transaction*

As the registered production place of the entrusted processing related varieties is a subsidiary of Shenzhen HEC Industrial Group, the Group does not possess the Good Manufacturing Practice (“GMP”) qualification and related equipment for the production of pharmaceutical products as mentioned above. Shenzhen HEC Industrial Group has passed the national GMP certification for many times and possesses the production qualifications and equipment for the relevant pharmaceutical products, and therefore the Group entrusted Shenzhen HEC Industrial Group to manufacture the pharmaceutical products through the Entrusted Processing Framework Agreement.

The Board (excluding the independent non-executive Directors, who will give their opinion after taking into account of the recommendation from the Independent Financial Advisor) is of the view that the Entrusted Processing Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) 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**

### **1. Equipment Sales Framework Agreement**

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to the sale of specific pharmaceutical production and inspection equipment (including Glatter fluidized bed), quality inspection equipment and other equipment (the “**Equipment Sales Framework Agreement**”) by the Company to Shenzhen HEC Industrial.

The principal terms of the Equipment Sales Framework Agreement are as follows:

Date	:	27 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 27 February 2023 to 31 December 2023
Nature of transaction	:	The Company agreed to sell specific pharmaceutical production equipment (including Glatter fluidized bed), quality inspection equipment and other equipment (the “ <b>Equipment</b> ”) 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 Equipment Sales Framework Agreement is conditional upon the satisfaction of the following conditions precedent:
- (i) the due execution of the Equipment Sales Framework Agreement by both parties; and
  - (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Equipment Sales Framework Agreement and the transactions contemplated thereunder and the proposed annual cap by the Company in accordance with the Listing Rules.

#### *Pricing policy*

The price of the Equipment under the Equipment Sales Framework Agreement will be determined with reference to the purchase price of related Equipment.

#### *Proposed annual cap and determination basis*

The Company estimates that the proposed annual cap under the Equipment Sales Framework Agreement for the year ending 31 December 2023 is RMB30,496,500. In considering the proposed annual cap under the Equipment Sales Framework Agreement, the Directors have taken into account a number of factors, including (1) the business development of the Company; (2) the total number of relevant Equipment purchased by the Company multiplied by the unit price of the Equipment; and (3) the business development needs of Shenzhen HEC Industrial.

#### *Reasons for the transaction*

Some of the previously purchased equipment is idle due to project delays and industrial adjustments of the Company's biological preparation factory, and Shenzhen HEC Industrial needs the relevant Equipment for its business development. Therefore, the sales of the relevant Equipment are conducive to reducing the risk of depreciation of the Company's idle Equipment, and also meet the needs of Shenzhen HEC Industrial's business development.

The Board (excluding the independent non-executive Directors, who will give their opinion after taking into account of the recommendation from the Independent Financial Advisor) is of the view that the Equipment Sales Framework Agreement and the transactions contemplated thereunder (including the proposed annual cap) are on normal commercial terms and in the ordinary and usual course of business of the Group, and the proposed annual cap is on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## 2. Entrusted Production and Inspection Services Framework Agreement

On 27 February 2023, the Company and Shenzhen HEC Industrial entered into a framework agreement in relation to the provision of production and testing services, which includes inspection and testing, production and other services by the Company to Shenzhen HEC Industrial (the “**Entrusted Production and Inspection Services Framework Agreement**”).

The principal terms of the Entrusted Production and Inspection Services Framework Agreement are as follows:

Date	:	27 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 27 February 2023 to 31 December 2025
Nature of transaction	:	The Company agreed to provide Production and Inspection Services to Shenzhen HEC Industrial. The scope of the entrusted Production and Inspection Services includes provision of production, inspection and testing services to Dong An Tai, Dong An Qiang, Dong An Rui (東安瑞), Dong Tong Shen (東通神), other generic drugs, other new drugs, insulin degludec/insulin aspart, insulin degludec/liraglutide injection and intermediates of generic drugs (“ <b>Production and Inspection Services</b> ”).
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 Entrusted Production and Inspection Services Framework Agreement is conditional upon the satisfaction of the following conditions precedent:  (i) the due execution of the Entrusted Production and Inspection Services Framework Agreement by both parties; and



- (ii) having obtained approval from the Independent Shareholders at the EGM in relation to the Entrusted Production and Inspection Services Framework Agreement and the transactions contemplated thereunder and the proposed annual caps by the Company in accordance with the Listing Rules.

#### *Pricing policy*

The entrusted production services fee charged by the Group to Shenzhen HEC Industrial will be determined based on the price of actual entrusted projects and a “cost-plus” mechanism is adopted, in which a range of 10%–20% of the profit is charged. The testing services fee charged by the Group to Shenzhen HEC Industrial will be determined based on the price of actual entrusted research projects and a “cost-plus” mechanism is adopted, in which a range of 10%–15% of the profit is charged.

#### *Proposed annual caps and determination basis*

The Company estimates that the proposed annual caps under the Entrusted Production and Inspection Services Framework Agreement for each of the three years ending 31 December 2023, 2024 and 2025 are RMB105,230,000, RMB68,992,000 and RMB49,250,000, respectively. In considering the proposed annual caps under the Entrusted Production and Inspection Services Framework Agreement, the Directors have taken into account a number of factors, including (1) the Group’s production capacity for the three years ending 31 December 2023, 2024 and 2025; and (2) the demand from the Shenzhen HEC Industrial Group. In 2023, Shenzhen HEC Industrial entrusted the Group with a substantial increase in the production and testing of new projects, such as the testing and inspection project of Dulaglutide Phase III clinical samples, and the testing and entrusted processing of related innovative drugs and generic drugs in the research and development stage, hence the Company has significantly increased the proposed annual cap for the year ending 31 December 2023. In 2024 and 2025, it is expected that some pharmaceutical products of Shenzhen HEC Industrial will be approved to launch with a significant reduction in the demand for testing projects and entrusted production projects for these pharmaceutical products at the corresponding research and development stage, therefore the amounts of proposed annual caps for each of the two years ending 31 December 2024 and 2025 will be less than the proposed annual cap for the year ending 31 December 2023.

### *Historical transaction amounts*

The transaction amounts for the Entrusted Production and Inspection Services 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		
	Historical			Historical			Historical		
	Annual	transaction	Utilized	Annual	transaction	Utilized	Annual	transaction	Utilized
	Cap	amounts	rate	Cap	amounts	rate	Cap	amounts	rate
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Historical transaction amounts for provision of Production and Inspection Services to Shenzhen HEC Industrial Group	—	—	—	74,296.26	4,971.01	6.69%	59,000	39,235.5	66.50%

### *Reasons for the transaction*

Shenzhen HEC Industrial entrusted the Company to carry out the production of drugs, which is beneficial for the Company to efficiently utilize the production lines and avoid idle factory buildings, equipment and loss of personnel, so as to generate more revenue for the Group. At the same time, it will be beneficial for the Company to develop new business, satisfy the Company's future development needs, enhance the Company's competitiveness and create more value for the Company.

The Board (excluding the independent non-executive Directors, who will give their opinion after taking into account of the recommendation from the Independent Financial Advisor) is of the view that the Entrusted Production and Inspection Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) 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 the proposed annual caps of each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement when aggregated with the transactions entered into between the Group and Shenzhen HEC Industrial Group in the preceding 12 months pursuant to Rule 14A.81 of the Listing Rules exceeds 5%, such transactions and the proposed annual caps contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. TANG Xinfu, 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 the 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 price 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 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 third party 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 of the Company 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 Transactions;
- (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 enhance 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 Continuing Connected Transactions 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 Continuing Connected Transactions are conducted as agreed under the Continuing Connected Transaction Agreements, 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.

## **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee (comprising Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen, all being independent non-executive Directors) has been formed to advise the Independent Shareholder(s) on the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement (including the respective proposed annual caps). The Independent Financial Advisor will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholder(s) in respect of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing

Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement (including the respective proposed annual caps).

## **EXTRAORDINARY GENERAL MEETING**

An EGM will be convened to, among other things, consider and, if thought fit, approve the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement (including the respective proposed annual caps).

Shenzhen HEC Industrial and its associate(s), such as Sunshine Lake Pharma and HEC (Hong Kong) Sales Co., Limited, are required to abstain from voting on the resolutions to be proposed at the EGM to approve the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement (including the respective proposed annual caps).

A circular containing, among other things, (i) further details of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement (including the respective proposed annual caps); (ii) the recommendation of the Independent Board Committee in respect of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement (including the respective proposed annual caps); (iii) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholder(s) in respect of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement (including the respective proposed annual caps); and (iv) other information as required by the Listing Rules will be despatched to the Shareholders. As additional time is required to prepare and finalise the content of the circular, the circular is expected to be despatched to the Shareholders on or before 27 March 2023.



## 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 Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement and their transactions contemplated thereunder
“Continuing Connected Transaction Agreements”	the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be convened to, among other things, consider and, if thought fit, approve the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement (including the respective proposed annual caps)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC



“Independent Board Committee”	the independent board committee (comprising Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen, all being independent non-executive Directors) formed by the Company to advise the Independent Shareholder(s) on the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement (including the respective proposed annual caps)
“Independent Financial Advisor”	the independent financial advisor to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholder(s) in respect of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement, the Equipment Purchase and Civil Construction Framework Agreement, the Entrusted Processing Framework Agreement, the Equipment Sales Framework Agreement and the Entrusted Production and Inspection Services Framework Agreement (including the respective proposed annual caps)
“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 Continuing Connected Transactions and their respective proposed annual caps
“Listing Rules”	the 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 Xinfu**  
*Chairman*

Hubei, the PRC  
27 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 Xinfu as a non-executive Director; and Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen as the independent non-executive Directors.*

\* *For identification purpose only*