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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)

**INSIDE INFORMATION
UPDATE ON POSSIBLE SHARE TRANSFER BY CONTROLLING
SHAREHOLDER OF THE COMPANY**

This announcement is made by YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the “**Company**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company dated 31 August 2021 and 11 November 2021 in relation to the Proposed Transfer and the financial information of the Company.

In accordance with the applicable regulatory requirements of the PRC, Guangdong HEC Technology Holding Co., Ltd.* (廣東東陽光科技控股股份有限公司) (the “**Parent Company**”) has published “The Enquiry Letter Regarding Information Disclosure of Report on the Major Asset Disposal and Connected Transaction of Guangdong HEC Technology Holding Co., Ltd. (Draft) (Shang Zheng Gong Han [2021] No. 2926) (《關於對廣東東陽光科技控股股份有限公司重大資產出售暨關聯交易報告書(草案)的信息披露問詢函》(上證公函[2021]2926號)) on the website of the Shanghai Stock Exchange and its own website, in which the information related to the Company is extracted and/or summarised below.

Shareholders and potential investors of the Company are hereby reminded that the financial information (other than the unaudited financial information for the period from August to October 2021, which has not been reviewed by the Company) contained in this announcement was prepared in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and audited by KPMG Huazhen LLP, which was engaged by the Parent Company. Shareholders and investors of the Company are advised to exercise caution when dealing in the shares of the Company.

(I) THE OPERATING AND FINANCIAL DATA OF THE COMPANY, INCLUDING THE PRODUCTION AND SALES VOLUME, PRICES, REVENUE, GROSS PROFIT MARGINS OF MAJOR PRODUCTS AND THEIR CHANGES SINCE THE END OF THE REPORTING PERIOD; DESCRIPTION OF WHETHER THE IMPACT OF PANDEMIC HAS MITIGATED AND WHETHER THE RESULT OF THE COMPANY HAS RECOVERED

1. The operating and financial data of the Company since the end of the reporting period

The table below sets out the operating and financial data of the Company's Kewei and other products from August 2021 to October 2021:

Unit: 0,000 cases (pack), RMB/case (pack), RMB'0,000

Type	Production volume	Sales volume	Unit Price	Revenue	Gross profit margin
Kewei	852.76	744.84	20.65	15,380.39	71.09%
Others	<u>731.24</u>	<u>790.40</u>	<u>9.97</u>	<u>7,879.07</u>	<u>36.24%</u>
Total	<u>1,584.00</u>	<u>1,535.24</u>	<u>15.15</u>	<u>23,259.45</u>	<u>59.28%</u>

2. Changes and comparison of the Company's operating and financial data since the end of the reporting period

The table below sets out the changes and comparison of the average monthly data of the Company's Kewei and other products, including production and sales volume, revenue, prices, gross profit margins from August to October 2021:

Unit: 0,000 cases (pack), RMB/case (pack), RMB'0,000

Item	Type	August to October 2021	January to July 2021	2020	2019
Average monthly production volume	Kewei	284.25	11.25	496.19	908.25
	Others	<u>243.75</u>	<u>164.12</u>	<u>258.23</u>	<u>139.59</u>
	Total	<u>528.00</u>	<u>175.36</u>	<u>754.42</u>	<u>1,047.84</u>
Average monthly sales volume	Kewei	248.28	45.16	360.08	1,061.07
	Others	<u>263.47</u>	<u>224.13</u>	<u>173.43</u>	<u>154.68</u>
	Total	<u>511.75</u>	<u>269.30</u>	<u>533.51</u>	<u>1,215.75</u>

Item	Type	August to October 2021	January to July 2021	2020	2019
Average monthly revenue	Kewei	5,126.80	1,071.18	17,239.39	49,443.11
	Others	<u>2,626.36</u>	<u>2,550.87</u>	<u>2,317.59</u>	<u>2,420.12</u>
	Total	<u>7,753.15</u>	<u>3,622.05</u>	<u>19,556.99</u>	<u>51,863.23</u>
Average monthly unit price	Kewei	20.65	23.72	47.88	46.60
	Others	<u>9.97</u>	<u>11.38</u>	<u>13.36</u>	<u>15.65</u>
	Total	<u>15.15</u>	<u>13.45</u>	<u>36.66</u>	<u>42.66</u>
Average monthly gross profit margins	Kewei	71.09%	79.60%	88.18%	85.28%
	Others	<u>36.24%</u>	<u>42.45%</u>	<u>64.41%</u>	<u>83.57%</u>
	Total	<u>59.28%</u>	<u>53.44%</u>	<u>85.36%</u>	<u>85.20%</u>

(1) Operating performance of Kewei

At the beginning of 2020, the Company's downstream clients stocked up with reference to the past influenza peak seasons. Meanwhile, during the early stage of the COVID-19 pandemic, due to the similarity between the symptoms of COVID-19 and influenza to a certain extent and insufficient knowledge of the coronavirus both domestically and internationally, Kewei was taken as a reserved medicine by certain end medical institutions. In the "Notice of the Provincial Health Commission on Reporting the Demand for the Supplies for COVID-19 Pandemic Prevention and Control (《省卫生健康委關於報送新型冠狀病毒肺炎疫情防控用品需求的通知》)" issued by the Health Commission of Hubei Province on 21 January 2020, it was required to forecast the demand of the supplies for pandemic prevention and control in the health system of the province, among which, oseltamivir was also one of the required antiviral drugs for such purpose. Against this backdrop, Kewei series recorded a higher production and sales volume in the first half of 2020.

Since the second half of 2020, as Kewei has been clinically proven to be unable to treat COVID-19, and the number of influenza cases dropped significantly amid the continuing resurgence of COVID-19, the demand for Kewei products in the market declined sharply. Kewei's inventory backlog began to appear in the Company's downstream channels, resulting in continuous downturn in the production and sales volume of Kewei.

Against this backdrop, the average monthly revenue and production and sales volume of Kewei from August to October 2021 was higher than that from January to July 2021, which was mainly due to the more aggressive discount and promotion policy of the Company and the gradual easing of channel inventory backlog. Nevertheless, there is still a big gap between the average monthly revenue as well as production and sales volume of Kewei from August to October 2021 as compared with those in the corresponding period in 2019 and the annual average monthly level in 2019 and 2020.

The sales unit price and gross profit margin of Kewei decreased significantly in 2021. On one hand, it represented the result of the discount and promotion policy of the Company. On the other hand, due to the COVID-19 pandemic and the larger backlog of Kewei capsules in channel inventory during the early stage, Kewei granules with lower sales unit price and gross profit margin dominated the sales of the Company in 2021, while the sales of Kewei capsules with higher sales unit price and gross profit margin decreased as compared with the past.

(2) Operating performance of other products

The impact of COVID-19 pandemic on other products of the Company is relatively limited. In general, the total amount and changes of other products have little impact on the Company's performance. The revenue, production and sales volume of the Company's products other than Kewei have increased as a whole since 2019, while the unit price and gross profit margin have continued to decline, mainly due to the "price for quantity" strategy after some categories have been included in the centralized purchase.

To sum up, on one hand, the average monthly production and sales volume and revenue of Kewei rebounded from August to October 2021 as compared with those from January to July 2021, which was mainly related to the gradual easing of the backlog of channel inventory during the early stage and more aggressive discount and promotion policy of the Company, but there is still a big gap as compared with the monthly average data in the years of 2019 and 2020. On the other hand, the impact of COVID-19 pandemic on other products of the Company is relatively limited, and the total amount and changes of other products have little impact on the performance of the Company. Therefore, taking into account the recent outbreak of COVID-19 pandemic domestically and abroad, it remains to be further observed whether the spread of COVID-19 pandemic has been slowed down and whether the performance of the Company has recovered.

(II) NAMES, SALES AMOUNTS, TRADE RECEIVABLES AND AGEING PATTERNS OF THE COMPANY'S TOP FIVE CLIENTS FOR THE REPORTING PERIOD; ANALYSIS AND EXPLANATION OF THE REASONS AND RATIONALES FOR THE DECREASE IN TRADE RECEIVABLES TURNOVER RATIO AND THE INCREASE IN PERCENTAGE OF ALLOWANCE FOR BAD DEBT

1. Names, sales amounts, trade receivables and ageing patterns of the Company's top five clients for the reporting period

Names, sales amounts, trade receivables and ageing patterns of the Company's top five clients for the reporting period are as follows:

Unit: RMB'0,000

No.	Full Name of client	Sales revenue in 2019	Percentage	Balance of trade receivables as at 31 December 2019	Percentage	Ageing pattern				
						Within 6 months	6 months to 1 year	1 year to 2 years	2 years to 3 years	Over 3 years
1	China National Pharmaceutical Group Co., Ltd.	221,447.40	35.58%	52,552.80	43.30%	52,517.48	6.41	—	—	28.91
2	Jointown Pharmaceutical Group Co., Ltd.	92,289.59	14.83%	11,544.20	9.51%	11,513.96	27.92	2.33	—	—
3	China Resources Pharmaceutical Commercial Group Company Limited	63,925.94	10.27%	12,816.13	10.56%	12,809.26	—	1.17	—	5.70
4	Guangzhou Pharmaceuticals Co., Ltd.	12,336.84	1.98%	1,969.05	1.62%	1,969.05	—	—	—	—
5	Realcan Pharmaceutical Group Co., Ltd.	11,805.17	1.90%	3,766.30	3.10%	3,758.79	—	—	—	7.51
Total		401,804.94	64.56%	82,648.48	68.09%	82,568.54	34.33	3.50	—	42.12

No.	Full Name of client	Sales revenue in 2020	Percentage	Balance of trade receivables as at 31 December 2020	Percentage	Ageing pattern				
						Within 6 months	6 months to 1 year	1 year to 2 years	2 years to 3 years	Over 3 years
1	China National Pharmaceutical Group Co., Ltd.	62,538.81	26.63%	8,105.35	30.86%	6,272.79	1,803.65	—	—	28.91
2	Jointown Pharmaceutical Group Co., Ltd.	50,554.28	21.53%	350.44	1.33%	285.95	62.17	—	2.33	—
3	China Resources Pharmaceutical Commercial Group Company Limited	24,357.29	10.37%	3,513.74	13.38%	2,088.86	1,422.36	—	1.17	1.34
4	Guangdong Yihao Pharmaceutical Co., Ltd.* (廣東壹號藥業有限公司)	12,293.71	5.24%	1,266.97	4.82%	1,266.97	—	—	—	—
5	Shanghai Pharmaceuticals Holding Co., Ltd.	9,508.74	4.05%	1,112.74	4.24%	861.15	248.79	2.80	—	—
Total		159,252.83	67.82%	14,349.24	54.64%	10,775.72	3,536.97	2.80	3.50	30.25

No.	Full Name of client	Sales revenue from	Percentage	Balance of trade receivables	Percentage	Ageing pattern				
		January to July 2021		as at 31 July 2021		Within 6 months	6 months to 1 year	1 year to 2 years	2 years to 3 years	Over 3 years
1	China National Pharmaceutical Group Co., Ltd.	6,047.79	23.72%	6,918.29	25.58%	3,786.90	1,506.36	1,596.12	—	28.91
2	China Resources Pharmaceutical Commercial Group Company Limited	3,537.36	13.87%	3,006.79	11.12%	1,624.39	121.84	1,258.04	1.17	1.34
3	Jointown Pharmaceutical Group Co., Ltd.	2,986.70	11.71%	2,585.28	9.56%	2,430.98	—	151.97	—	2.33
4	Shanghai Pharmaceuticals Holding Co., Ltd.	935.86	3.67%	831.05	3.07%	685.23	143.02	—	2.80	—
5	Zhejiang Renyun Pharma Co., Ltd.* (浙江仁運醫藥有限公司)	920.71	3.61%	—	—	—	—	—	—	—
Total		14,428.42	56.59%	13,341.41	49.33%	8,527.50	1,771.22	3,006.13	3.97	32.58

Note: The figures set out in the above tables represent tax-exclusive amounts and the sales amounts of clients under the same ultimate control are aggregated.

2. Reasons and rationales for the decrease in trade receivables turnover ratio and the increase in percentage of allowance for bad debt of the Company

(1) The business background of the changes in the trade receivables of the Company during the reporting period

As stated above, Kewei series of the Company was taken as a reserved medicine by certain end medical institutions at the beginning of 2020 and the sales revenue of such product maintained at a high level in the first half of 2020, resulting in a significant amount of trade receivables. Against the backdrop of sharp decline in market demand for Kewei in the second half of 2020, the sales and capital returns of the Company's downstream clients were substantially affected and the overstock of products tightened their financial position. Given the long-term friendly cooperative relationship between the Company and certain major clients and the good payment history of major clients, after amicable negotiation between both parties, the maturity of the payment of certain trade receivables between the parties in the first half of 2020 has been temporarily postponed by the Company, resulting in longer turnover days of trade receivables.

(2) *Reasons and rationales for the decrease in trade receivables turnover ratio of the Company during the reporting period*

During the reporting period, the trade receivables turnover ratios of the Company were 3.90, 1.75 and 1.14, respectively, representing a downward trend. Affected by the COVID-19 pandemic, the market demand of Kewei declined substantially, resulting in a significant drop in the operating income of the Company. In addition, as the Company temporarily postponed the collection of certain trade receivables from certain major clients, the changes in trade receivables were relatively small, resulting in a decrease in the trade receivables turnover ratios of the Company during the reporting period.

Therefore, the decrease in trade receivables turnover ratios of the Company during the reporting period was in line with the market demand for Kewei and business condition, which was reasonable.

(3) *Reasons and rationales for the increase in percentage of allowance for bad debt of trade receivables of the Company during the reporting period*

At the end of each reporting period, the percentages of allowance for bad debt of trade receivables of the Company were 1.00%, 4.78% and 12.55%, respectively, representing an upward trend and mainly due to the temporary postponement of the collection of certain trade receivables by the Company under the above business background, thereby resulting in a higher increase in trade receivables aged over one year, which in turn led to a corresponding increase in the allowance for bad debts.

During the reporting period, there was no change in the criteria for determining the allowance for bad debts of trade receivables and the calculation of the percentage of allowance for bad debt by ageing, and the principle of consistency was maintained, complying with the relevant accounting standards. The increase in the percentage of allowance for bad debt of trade receivables reasonably reflected the actual condition of relevant business, which was reasonable.

(III) RATIONALES FOR THE SUBSTANTIAL CHANGES IN THE ABOVE FINANCIAL INDICATORS OF THE COMPANY

1. Analysis on the Company

The Company's products are mainly chemical preparations in terms of business characteristics, of which Kewei is the core product.

Unit: RMB0,000

Name of company	Type of main product	Operating income			Net profit		
		2019	2020	January to July 2021/ January to June 2021	2019	2020	January to July 2021/ January to June 2021
The Company	Anti influenza drugs, cardiovascular drugs, endocrine and metabolic drugs	622,402.42	234,811.26	25,496.47	190,718.50	83,741.15	-42,589.39

2. The indicators related to trade receivables and inventory of the Company

During the reporting period, the indicators related to trade receivables and inventory of the Company are as follows:

Item	Name of company	January to July 2021/ January to June 2021	2020	2019
Inventory turnover ratio (times)	The Company	0.52	1.19	5.15
Trade receivables turnover ratio (times)	The Company	1.14	1.75	3.90

Affected by COVID-19 pandemic, the market demand for Kewei and the operating income of the Company recorded a larger decline. During the reporting period, the inventory turnover ratio of the Company were 5.15, 1.19 and 0.52, respectively, and the trade receivables turnover ratio were 3.90, 1.75 and 1.14, respectively, showing a decreasing trend year by year. The decrease was in line with the underlying trend of operating income.

During the reporting period, the changes in the inventory turnover ratio and trade receivables turnover ratio of the Company were in line with the change in performance of its main products. With reference to the actual situation of the Company's own business, the changes in performance and relevant financial indicators are reasonable.

This announcement and the accompanying financial statements were originally prepared in Chinese and published in both Chinese and English. If there is any inconsistency or conflict between the Chinese and English versions, the Chinese version shall prevail.

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

Hubei, the PRC

10 December 2021

As at the date of this announcement, the board of the Company consists of Mr. JIANG Juncai, Mr. WANG Danjin, Mr. CHEN Yangui and Mr. LI Shuang as executive directors; Mr. TANG Xinfa and Mr. Eddy HUANG as non-executive directors; and Mr. TANG Jianxin, Mr. ZHAO Dayao, Ms. XIANG Ling and Mr. LI Xuechen as independent non-executive directors.

* *For identification purposes only*