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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)**

## **SUPPLEMENTAL ANNOUNCEMENT ON REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcements of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the “**Company**”) dated 10 February 2023, 27 February 2023 and 30 October 2023 (the “**Announcement(s)**”) and the circular of the Company dated 17 May 2023 (the “**Circular**”), in relation to, among others, the continuing connected transactions of the Company. Unless otherwise defined, capitalized terms in this announcement shall have the same meaning as defined in the Announcements.

As disclosed in the Announcement of the Company dated 30 October 2023, the Company would like to revise the annual caps for the year ending 31 December 2023 of certain continuing connected transactions of the Company. The Board would like to further propose to revise the annual caps of certain continuing connected transactions of the Company for the years ending 31 December 2023, 2024 and 2025 as follows:

### **1. Entrusted Processing Framework Agreement**

As disclosed in the Circular, the Company and Shenzhen HEC Industrial entered into the Entrusted Processing Framework Agreement in relation to purchase of Processing Services from Shenzhen HEC Industrial, under which the annual caps for each of the three years ending 31 December 2023, 2024 and 2025 were RMB94,805,500, RMB108,832,000 and RMB139,468,200, respectively.

#### ***Historical Transaction Amount***

As of 30 September 2023, the transaction amount under the Entrusted Processing Framework Agreement amounted to approximately RMB66,246,900, representing approximately 69.9% of the original annual cap for the year ending 31 December 2023 with only approximately one-third of the original annual cap available for the purchasing Processing Service by the Group in the fourth quarter of 2023, and it is expected to be insufficient to meet the demand of Processing Services by the Group in the fourth quarter of 2023. Therefore, in order to satisfy the need of Processing Services

to meet high market demand of certain pharmaceutical products, the Board intends to increase the annual cap under the Entrusted Processing Framework Agreement for the year ending 31 December 2023.

### ***Revision of the original annual cap***

After taking into consideration the estimated demand of Processing Services of the Group to meet the high market demand of certain pharmaceutical products, the Board proposed to revise the original annual cap under the Entrusted Processing Framework Agreement for the year ending 31 December 2023 as follows:

	<b>Annual cap for the year ending 31 December 2023 (RMB)</b>
<b>Original annual cap</b>	94,805,500
<b>Upward adjustment</b>	11,000,000
<b>Revised annual cap</b>	105,805,500

Save for the revised annual cap for the year ending 31 December 2023, all other terms of the Entrusted Processing Framework Agreement as disclosed in the Circular remain unchanged.

The revised annual cap for the year ending 31 December 2023 under the Entrusted Processing Framework Agreement is determined with reference to (1) the historical transaction amounts; and (2) the estimated demand of Processing Services of the Group to meet the high market demand of certain pharmaceutical products for the year ending 31 December 2023.

### ***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.

The procurement department and other relevant departments such as the finance department will analyse the cost of relevant services (or to procure Shenzhen HEC Industrial Group to provide cost of relevant products) to ensure the purchase price will not exceed the estimated cost plus relevant margin (i.e. within approximately 10% to 20% of the processing fee) before placing a purchase order(s) with Shenzhen HEC Industrial Group.

The terms of the Entrusted Processing Framework Agreement has not been changed or modified in any way and the major terms (including pricing policy) are set out in the section headed “CONTINUING CONNECTED TRANSACTIONS PROVIDED BY SHENZHEN HEC INDUSTRIAL GROUP TO THE GROUP — 5. Entrusted Processing Framework Agreement” in the Circular.

### ***Reasons for and benefits of the revised annual cap***

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 Directors (excluding the independent non-executive Directors, who will express their opinions on the revised proposed annual cap under the Entrusted Processing Framework Agreement after obtaining the advice and recommendation from the independent financial adviser) consider that the revised proposed annual cap under the Entrusted Processing Framework Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

## **2. APIs Purchase Agreement**

As disclosed in the Circular, the Company and Shenzhen HEC Industrial entered into the APIs Purchase Agreement in relation to purchase of certain APIs from Shenzhen HEC Industrial with annual caps of RMB38,946,300, RMB53,786,800 and RMB75,442,100 for each of the three years ending 31 December 2023, 2024 and 2025, respectively.

### ***Historical Transaction Amount***

As disclosed in the Company’s announcement dated 30 October 2023, as of 30 September 2023, the transaction amount under the APIs Purchase Agreement amounted to approximately RMB29,358,000, representing approximately 75.4% of the original annual cap for the year ending 31 December 2023. Therefore, in order to satisfy the Group’s growing production needs and expected future expansion in the output level of the Group, in addition to the proposed revision of the annual cap under the APIs Purchase Agreement for the year ending 31 December 2023, the Board intends to increase the annual caps under the APIs Purchase Agreement for the years ending 31 December 2023, 2024 and 2025.

### ***Revision of the original annual cap***

After taking into consideration the production capacity of the Group's facilities and the expected demand for the products of the Group, the Board proposed to revise the original annual cap under the APIs Purchase Agreement for the years ending 31 December 2023, 2024 and 2025 as follows:

	<b>Annual cap for the year ending 31 December 2023 (RMB)</b>	<b>Annual cap for the year ending 31 December 2024 (RMB)</b>	<b>Annual cap for the year ending 31 December 2025 (RMB)</b>
<b>Original annual cap</b>	38,946,300	53,786,800	75,442,100
<b>Upward adjustment</b>	20,000,000	20,000,000	20,000,000
<b>Revised annual cap</b>	58,946,300	73,786,800	95,442,100

Save for the revised annual cap for the years ending 31 December 2023, 2024 and 2025, all other terms of the APIs Purchase Agreement as disclosed in the Circular remain unchanged.

The revised annual cap for the years ending 31 December 2023, 2024 and 2025 under the APIs Purchase Agreement is determined with reference to (1) the historical transaction amounts paid by the Group for APIs in the past financial years and the nine months ended 30 September 2023; (2) the expected needs of APIs as raw materials for the Group's production, in particular, the production of Emitasvir Phosphate products; (3) the estimated demand for Group's Emitasvir Phosphate products the years ending 31 December 2023, 2024 and 2025; and (4) expected increase in transaction amounts in the future due to the Group's business development.

### ***Pricing Policy***

The terms of the APIs Purchase Agreement has not been changed or modified in any way and the major terms (including pricing policy) are set out in the section headed "CONTINUING CONNECTED TRANSACTIONS PROVIDED BY SHENZHEN HEC INDUSTRIAL GROUP TO THE GROUP — 2. APIs Purchase Agreement" in the Circular.

### ***Reasons for and benefits of the revised annual cap***

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 Directors (excluding the independent non-executive Directors, who will express their opinions on the revised proposed annual cap under the APIs Purchase Agreement after obtaining the advice and recommendation from the independent financial adviser) consider that the revised proposed annual cap under the APIs Purchase Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

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

As disclosed in the Circular, the Company and Shenzhen HEC Industrial entered into Packaging and Production Materials Purchase Framework Agreement in relation to purchase of Packaging Materials for packaging and production of the drugs manufactured by the Group from Shenzhen HEC Industrial, pursuant to which the annual caps thereunder for each of the three years ending 31 December 2023, 2024 and 2025 were RMB40,600,000, RMB40,600,000 and RMB40,600,000, respectively.

#### ***Historical Transaction Amount***

As disclosed in the Company's announcement dated 30 October 2023, as of 30 September 2023, the transaction amount under the Packaging and Production Materials Purchase Framework Agreement amounted to approximately RMB30,520,000, representing approximately 75.2% of the original annual cap for the year ending 31 December 2023. With reference to the growing production capacity and expected future expansion of output level of the Group, in order to satisfy the Group's production needs, in addition to the proposed revision of the annual cap under the Packaging and Production Materials Purchase Framework Agreement for the year ending 31 December 2023, the Board intends to increase the annual cap under the Packaging and Production Materials Purchase Framework Agreement for the years ending 31 December 2023, 2024 and 2025.

### ***Revision of the original annual cap***

After taking into consideration the expected sales volume of the drugs manufactured by the Group and the inventories of the Group, the Board proposed to revise the original annual cap under the Packaging and Production Materials Purchase Framework Agreement for the years ending 31 December 2023, 2024 and 2025 as follows:

	<b>Annual cap for the year ending 31 December 2023 (RMB)</b>	<b>Annual cap for the year ending 31 December 2024 (RMB)</b>	<b>Annual cap for the year ending 31 December 2025 (RMB)</b>
<b>Original annual cap</b>	40,600,000	40,600,000	40,600,000
<b>Upward adjustment</b>	8,000,000	8,000,000	8,000,000
<b>Revised annual cap</b>	48,600,000	48,600,000	48,600,000

Save for the revised annual cap for the years ending 31 December 2023, 2024 and 2025, all other terms of the Packaging and Production Materials Purchase Framework Agreement as disclosed in the Circular remain unchanged.

The revised annual cap for the years ending 31 December 2023, 2024 and 2025 under the Packaging and Production Materials Purchase Framework Agreement is determined with reference to (1) the historical transaction amounts; and (2) the estimated market demand for the years ending 31 December 2023, 2024 and 2025.

### ***Pricing Policy***

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

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



### *Reasons for and benefits of the revised annual cap*

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 Directors (excluding the independent non-executive Directors, who will express their opinions on the revised proposed annual cap under the Packaging and Production Materials Purchase Framework Agreement after obtaining the advice and recommendation from the independent financial adviser) consider that the revised proposed annual cap under the Packaging and Production Materials Purchase Framework Agreement are 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 in 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.

Pursuant to Rule 14A.54, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will have to re-comply with the relevant provisions under Chapter 14A of the Listing Rules in relation to the relevant continuing connected transactions. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the revised proposed annual caps for the years ending 31 December 2023, 2024 and 2025 of each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing 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, circular, annual review 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 POLICIES

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 Company will commence the renewal procedure with Shenzhen HEC Industrial Group at least three months prior to the expiry of Continuing Connected Transaction Agreements and will also seek legal advice from legal advisers and company secretary of the Company to provide with Shenzhen HEC Industrial Group the regulatory requirements for conducting transactions with connected persons, in the form of a notice or guidance letter;
- (3) 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;
- (4) 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; and (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;



- (5) 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;
- (6) 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;
- (7) 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;
- (8) 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;
- (9) 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
- (10) 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-infection, endocrine and metabolism. 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.

## **EXTRAORDINARY GENERAL MEETING**

An extraordinary general meeting will be convened to, among other things, consider and, if thought fit, approve the proposed revised annual caps for the years ending 31 December 2023, 2024 and 2025 under each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement.

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 extraordinary general meeting to approve the proposed revised annual caps for the years ending 31 December 2023, 2024 and 2025 under each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement.

A circular containing, among other things, (i) further details of proposed revised annual caps for the years ending 31 December 2023, 2024 and 2025 under each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement; (ii) the recommendation of the Independent Board Committee in respect of proposed revised annual caps under each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement; (iii) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholder(s) in respect of proposed revised annual caps for the years ending 31 December 2023, 2024 and 2025 under each of the Energy Purchase Framework Agreement, the APIs Purchase Agreement, the Packaging and Production Materials Purchase Framework Agreement and the Entrusted Processing Framework Agreement; 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 24 November 2023.

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

Hubei, the People's Republic of China

7 November 2023

*As at the date of this announcement, the Board consists of Mr. JIANG Juncai, Mr. WANG Danjin, Mr. LI Shuang and Mr. CHEN Hao as executive Directors; Mr. TANG Xinfa as non-executive Director; and Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen as independent non-executive Directors.*