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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  
IN RELATION TO  
SHARING AGREEMENT  
AND  
REVISION OF PROPOSED ANNUAL CAP UNDER THE SHARING  
AGREEMENT**

**I. INTRODUCTION AND BACKGROUND**

On 26 December 2022, the Company and Sunshine Lake Pharma entered into the Sharing Agreement, pursuant to which, Sunshine Lake Pharma agreed to distribute to the Company its revenues or profits generated from the sale of designated pharmaceutical products within the PRC as authorised by the Company, for a term from 1 January 2023 to 31 December 2024.

**II. SHARING AGREEMENT**

**1. Principal terms of the Sharing Agreement**

Parties:	(1) the Company; and (2) Sunshine Lake Pharma
Term:	From 1 January 2023 to 31 December 2024
Sharing arrangement:	(i) For the centralized tender business, Sunshine Lake Pharma shall distribute to the Company 10% of its sales revenue generated from the sale of the designated pharmaceutical products;

- (ii) For the non-centralized tender business, Sunshine Lake Pharma shall distribute to the Company 70% of its sales revenue generated from the sale of the designated pharmaceutical products; and
- (iii) If the sum of total profits generated by Sunshine Lake Pharma from the sale of all designated pharmaceutical products under the Sharing Agreement exceed the total revenue sharing to be received by the Company as calculated in accordance with paragraphs (i) and (ii) above, Sunshine Lake Pharma shall distribute all the sum of total profits generated from the sale of the designated pharmaceutical products under the Sharing Agreement to the Company instead.

Payment terms: Sunshine Lake Pharma shall provide the Company with a breakdown of its revenue and profits from the sale of designated pharmaceutical products within ten business days of the completion of its annual audit, and shall distribute the revenue or profit to the Company within seven business days of receipt of written confirmation from the Company.

## **2. Basis for determining the sharing arrangement**

When determining the relevant sales sharing ratio, the Company and Sunshine Lake Pharma mainly made reference to factors including the reasons and benefits for entering into the sharing arrangement, the sharing ratio of the licensing arrangement with independent third parties, the profit margins for centralized tender business and non-centralized tender business, as well as the proportion of costs to revenue to be incurred by Sunshine Lake Pharma.

## **3. Original Proposed Annual Caps and basis of determination**

At the time of entering into of the Sharing Agreement, the revenue sharing or profit that the Company expected to receive from Sunshine Lake Pharma under the Sharing Agreement for the years ended 31 December 2023 and ending 31 December 2024 were RMB2.5 million and RMB2.5 million, respectively (“**Original Proposed Annual Caps**”).

In determining the Original Proposed Annual Caps, the Company considered the following (i) the limited types of designated pharmaceutical products under the Sharing Agreement; (ii) lower profitability of certain designated pharmaceutical products under the Sharing Agreement; (iii) Sunshine Lake Pharma’s projections of the revenue or profit from the sale of the designated pharmaceutical products for the years ended 31 December 2023 and ending 31 December 2024; and (iv) the revenue sharing ratios as prescribed under the Sharing Agreement.

#### 4. Implications under the Listing Rules

Sunshine Lake Pharma controls the exercise of approximately 51.41% of the voting rights of the Company and is therefore a controlling shareholder and a connected person of the Company. Accordingly, the transactions under the Sharing Agreement constitute connected transactions of the Company.

As the highest applicable percentage ratio (as defined in the Listing Rules) of the Original Proposed Annual Caps under the Sharing Agreement is less than 5% and total consideration is less than HKD3 million, the transactions under the Sharing Agreement are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In the course of preparing the annual report of the Group for the year ended 31 December 2023, it came to the Company's attention that the total amount of revenue sharing that the Company received or receivable from Sunshine Lake Pharma under the Sharing Agreement for the year ended 31 December 2023 and for the three months ended 31 March 2024 were approximately RMB23.0 million and approximately RMB36.3 million, respectively, which exceeded the Original Proposed Annual Caps, and the highest applicable percentage ratio (as defined in the Listing Rules) of the actual transaction amounts are more than 0.1% but less than 5%. Accordingly, the transactions under the Sharing Agreement would be subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

### III. REVISION OF THE ORIGINAL PROPOSED ANNUAL CAPS UNDER THE SHARING AGREEMENT

After taking into account (i) the revenue sharing received by the Company from Sunshine Lake Pharma under the Sharing Agreement for the year ended 31 December 2023; (ii) the revenue sharing receivable by the Company from Sunshine Lake Pharma for the period from 1 January 2024 to 31 March 2024 under the Sharing Agreement; (iii) Sunshine Lake Pharma's updated forecast of revenue or profit from the sale of designated pharmaceutical products under the Sharing Agreement for the year ending 31 December 2024; and (iv) the revenue sharing ratios as prescribed under the Sharing Agreement, the Board has resolved to revise the annual cap of the revenue sharing or profit to be received from Sunshine Lake Pharma under the Sharing Agreement for the year ending 31 December 2024 to RMB70.0 million (the "**Revised Proposed Annual Cap**").

Save as the revision of the Original Proposed Annual Cap for the year ending 31 December 2024, all other terms and conditions under the Sharing Agreement remain unchanged.

## **Implications under the Listing Rules**

As the highest applicable percentage ratio (as defined in the Listing Rules) of the Revised Proposed Annual Cap under the Sharing Agreement is more than 0.1% but less than 5%, the connected transactions contemplated under the Sharing Agreement are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Under Rule 14A.56 of the Listing Rules, the Company's auditors must for each financial year provide a letter to the Board, confirming, amongst the other things, that the continuing connected transactions (i) have been approved by the Board; and (ii) have not exceeded the cap.

For reasons disclosed above, the Company's auditors reported to the Company that except for the transactions conducted pursuant to the Sharing Agreement, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors and have exceeded the annual cap as set by the Company.

## **IV. REASONS FOR AND BENEFITS OF THE TRANSACTIONS**

The demand for high-quality and effective pharmaceutical products from domestic pharmaceutical companies has surged in recent years as a result of rising domestic income levels and rising expectations for the quality and efficacy of pharmaceutical products. To make the best use of the Company's sales resources, the Company focuses on participating in higher-margin business opportunities, while constantly assessing and re-evaluating other business opportunities that yield relatively lower margins. In order to maximize the profits of the Company, the Company has been actively establishing cooperation programs with competent partners through different cooperation modes to realize complementary advantages and win-win situation. Sunshine Lake Pharma is principally engaged in the development, production and sales of pharmaceutical products outside the PRC, and possesses full-cycle drug development capabilities with comprehensive coverage, including preclinical R&D and clinical development of small molecule and large molecule new drugs, as well as development of small molecule generics and biologics, and also possesses the capacity to sell pharmaceutical products. By entering into the Sharing Agreement, the Company is able to generate additional revenues by utilizing the pharmaceutical production and sales capacity of Sunshine Lake Pharma so as to make more effective use of the Company's existing sales resources in the event that the Company faces short-term production capacity constraints under special circumstances.

Having considered the above, the Directors (including the independent non-executive Directors) consider that the transactions under the Sharing Agreement and the Revised Proposed Annual Cap are conducted in the ordinary and usual course of business of the Group, and such transactions are fair and reasonable, on normal commercial terms and in the interests of the Company and the shareholders of the Company as a whole.

As Mr. TANG Xinfa, a non-executive Director, is a director of Sunshine Lake Pharma, he is deemed to be materially interested in the transactions contemplated under the Sharing Agreement and has abstained from voting on the board resolution approving the transactions contemplated under the Sharing Agreement and the Revised Proposed Annual Cap. Save as aforesaid, none of the Directors has any material interest in the transactions contemplated under the Sharing Agreement and no other Director has abstained from voting on the board resolution.

## **V. 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-infective, endocrine and metabolic diseases. The Company is ultimately controlled by Ms. GUO Meilan and Mr. ZHANG Yushuai.

### **Sunshine Lake Pharma**

Sunshine Lake Pharma is a company incorporated in China and principally engaged in the development, manufacturing and sales of pharmaceutical products. Sunshine Lake Pharma is ultimately controlled by Ms. GUO Meilan and Mr. ZHANG Yushuai.

## **VI. REMEDIAL MEASURES AND INTERNAL CONTROLS**

The Company has taken remedial measures to enhance its internal control procedures with a view to ensuring timely disclosure of any non-fully exempt connected transactions and to preventing recurrence of similar events. These measures include (1) relevant internal training session has been arranged for all the senior management and relevant staff in all business departments (especially sales and purchases) and the finance department of the Group to reinforce and re-explain the relevant requirements under Chapter 14A of the Listing Rules; (2) the finance department of the Company will notify the business departments of the amounts of the proposed annual caps for continuing connected transactions, and monitor on a monthly basis whether the relevant annual caps have been exceeded; (3) for any potential transaction(s) which may constitute new connected transaction(s) of the Group, the Company will consult legal advisers in a timely manner prior to entering into of such transaction(s); and (4) for any fully-exempt connected transactions to be entered into by the Company, similar monitoring and control procedure will be applied.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

“Sharing Agreement”	the Sharing Agreement dated 26 December 2022 entered into by the Company and Sunshine Lake Pharma, pursuant to which, Sunshine Lake Pharma agreed to distribute to the Company its revenues or profits generated from the sale of designated pharmaceutical products within the PRC as authorised by the Company
“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
“designated pharmaceutical products”	products such as Liprodicaine cream, quetiapine fumarate tablets, metformin hydrochloride tablets, oseltamivir phosphate capsules, oseltamivir phosphate dry suspension, adapalene gel and ketoprofen gel
“Director(s)”	the director(s) of the Company
“connected person(s)”	has the meanings ascribed to them under the Listing Rules (as modified by the Stock Exchange from time to time)
“Group”	the Company and its subsidiaries
“HKD”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC” or “China”	the People’s Republic of China and for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sunshine Lake Pharma”	Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業股份有限公司, previously known as 廣東東陽光藥業有限公司), a company incorporated in the PRC with limited liability and one of the controlling shareholders of the Company
“%”	per cent.

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

Hubei, the PRC

26 April 2024

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