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創美·CH'MEI

**CHARMACY PHARMACEUTICAL CO., LTD.**

創美藥業股份有限公司

*(A joint stock limited liability company established in the PRC)*

**(Stock Code: 2289)**

**CONTINUING CONNECTED TRANSACTIONS  
ENTERING INTO (1) FRAMEWORK SALES AGREEMENT  
AND  
(2) FRAMEWORK PURCHASES AGREEMENT**

On 11 April 2022 (after trading hour), the Company and Jiangzhong Yishang, a substantial shareholder of the Company, have entered into the Framework Sales Agreement and the Framework Purchases Agreement, pursuant to which each of the Group and the Jiangzhong Yishang Group conditionally agreed to provide medicines, medical devices, healthcare products and food for which it acted as a Primary Distributor to each other.

**IMPLICATION UNDER THE LISTING RULES**

As at the date of this announcement, Jiangzhong Yishang is a substantial shareholder of the Company, holding 29,050,000 Domestic Shares (representing approximately 26.90% of the total issued share capital of the Company). Therefore, pursuant to the Listing Rules, Jiangzhong Yishang is a connected person of the Company, and the Framework Agreements and the transaction contemplated thereunder constitute continuing connected transactions of the Company. Moreover, pursuant to Rule 14A.81 of the listing Rules, the transactions contemplated under the Framework Sales Agreement and the Framework Purchases Agreement should be aggregated.

As one or more of the applicable percentage ratios in respect of the Annual Caps for the Framework Sales Agreement and the Framework Purchases Agreement, both on its own and when aggregated, are expected to be higher than 5%, the Framework Agreements and the Annual Caps are subject to the reporting, announcement, shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

**GENERAL**

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Framework Agreements and the Annual Caps. As Jiangzhong Yishang is a connected

person, Jiangzhong Yishang and its associates will abstain from voting on the resolutions to approve the Framework Agreements and the Annual Caps at the EGM.

The Board (excluding the independent non-executive Directors, who will provide their opinions after receiving the advice from the independent financial adviser) is of the view that the transactions contemplated under Framework Agreements are entered into in the ordinary and usual course of business of the Group and on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on, among other things, whether or not the terms of the Framework Agreements and the Annual Caps are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned and whether the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group. Sorrento Capital Limited has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders regarding the Framework Agreements and the Annual Caps.

A circular containing, among other things, (i) further information on the Framework Agreements and the Annual Caps, (ii) the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; (iii) the recommendation from the Independent Board Committee; and (iv) a notice of the EGM is expected to be despatched to the Shareholders on or before 5 May 2022.

## FRAMEWORK SALES AGREEMENT

Date	11 April 2022
Parties	The Company, as seller Jiangzhong Yishang, as purchaser
Effective period	From the Effective Date to 31 December 2024
Subject Matter	Any member of the Group may from time to time within the ambit of the Framework Sales Agreement enter into individual implementation agreements with any members of the Jiangzhong Yishang Group for the sales of medicines, medical devices, healthcare products and food for which the Group acted as a Primary Distributor.  Any such implementation agreements shall not

	contravene the provisions of the Framework Sales Agreement.
Pricing basis	The prices of the products shall be agreed and stated in the implementation agreements after arm's length negotiation between the Group and Jiangzhong Yishang Group based on normal commercial terms after taking into consideration the market conditions at the relevant time, the size of orders and the technical conditions, and the relevant costs and prices offered to Independent Third Party customers, and in any event shall be comparable to those offered by the Group to Independent Third Party customers.
Payment arrangement	Payment arrangements shall be agreed by the parties and stated in the individual implementation agreements, and in any event shall be comparable to those offered by the Group to Independent Third Party customers.
Condition Precedent	The Framework Sales Agreement is conditional upon the Independent Shareholders approving it and the transactions contemplated thereunder and the Annual Caps.

## **FRAMEWORK PURCHASES AGREEMENT**

Date	11 April 2022
Parties	The Company, as purchaser Jiangzhong Yishang, as seller
Effective period	From the Effective Date to 31 December 2024
Subject Matter	Any member of the Group may from time to time within the ambit of the Framework Purchases Agreement enter into individual implementation agreements with any members of the Jiangzhong Yishang Group for the purchase of medicines, medical devices, healthcare products and food for which the Jiangzhong Yishang Group acted as a Primary Distributor.

	Any such implementation agreements shall not contravene the provisions of the Framework Purchases Agreement.
Pricing basis	The prices of the products shall be agreed and stated in the implementation agreements after arm's length negotiation between the Group and Jiangzhong Yishang Group after taking into consideration the market conditions at the relevant time, the size of orders and the technical conditions, and all other purchases from Independent Third Party suppliers and in any event shall be comparable to those offered to the Group by Independent Third Party suppliers.
Payment arrangement	Payment arrangements shall be agreed by the parties and stated in the individual implementation agreements, and in any event shall be comparable to those offered to the Group by Independent Third Party suppliers.
Condition Precedent	The Framework Purchases Agreement is conditional upon the Independent Shareholders approving it and the transactions contemplated thereunder and the Annual Caps.

## THE ANNUAL CAPS AND BASIS OF DETERMINATION OF ANNUAL CAPS

For the three years prior to the Framework Sales Agreement, the Group did not sell any medicines, medical devices, healthcare products and food to the Jiangzhong Yishang Group. The Annual Caps for the Framework Sales Agreement for the three years ending 31 December 2024 are set out below:

	Financial year ending 31 December		
	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
For the transactions contemplated under the Framework Sales Agreement	160	200	230

The Annual Caps for the three years ending 31 December 2024 for the transactions contemplated under the Framework Sales Agreement were determined after considering, among other things, (i) the expected demand of medicines, medical devices, healthcare products and food supplied by the Group from Jiangzhong Yishang Group for which the Group acted as a Primary Distributor; (ii) the expected increase

in such demand attributable to the favourable macroeconomic and market environment; and (iii) a reasonable buffer for an upward adjustments (including due to inflation or otherwise).

For the three years prior to the Framework Purchases Agreement, the Group did not purchase any medicines, medical devices, healthcare products and food from the Jiangzhong Yishang Group. The Annual Caps for the Framework Purchases Agreement for the three years ending 31 December 2024 are set out below:

	Financial year ending 31 December		
	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
For the transactions contemplated under the Framework Purchases Agreement	160	240	320

The Annual Caps for the three years ending 31 December 2024 for the transactions contemplated under the Framework Purchases Agreement were determined after considering, among other things, (i) the expected sales of medicines, medical devices, healthcare products and food supplied by Jiangzhong Yishang Group of which Jiangzhong Yishang Group acted as a Primary Distributor; (ii) the historical business growth of the Group; (iii) the potential business growth of the Group attributable to the macroeconomic and market environment; and (iv) a reasonable buffer for an upward adjustments (including due to inflation or otherwise).

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENTS**

Jiangzhong Yishang is a mixed-ownership state-controlled enterprise in Jiangxi Province. It has distribution channels consisting of more than 700 franchise pharmacies over five provinces in the PRC, namely Jiangxi, Shandong, Henan, Sichuan and Jiangsu. Leveraging its advantages in policies, resources and brand as a state-controlled enterprise, Jiangzhong Yishang strives to build a modern pharmaceutical business platform covering all channels, all classes, the whole industry chain and the nationwide market. To do this, it has been building a pharmaceutical business platform focusing on sales by providing specialised solutions for individual pharmacies, small or medium-sized franchise pharmacies and clinics (non-bidding markets) in China's counties and towns; meanwhile, it has been comprehensively expanding strategic business areas such as pharmaceutical production, modern intelligent logistics, third-party entrusted distribution, "internet plus finance" and "internet plus retail".

The Directors are of the view that (i) the Framework Sales Agreement enables the Group to obtain stable customers, to expand the Group's sales coverage and achieve better business performance; and (ii) the Framework Purchases Agreement enables the Group to secure a stable source of the relevant products and onsell them in the ordinary course of business of the Group, so as to enrich the Group's product portfolio.

## **INTERNAL CONTROL MEASURES**

In order to ensure the terms of the Framework Agreements are on normal commercial terms and fair and reasonable to the Company and the Shareholders and are no less favourable to the Group than terms offered available to or from the Independent Third Parties, the Company has formulated the following internal control policies and adopted the following internal control measures:

- (i) the finance department of the Company will closely monitor the transactions under the Framework Agreements to ensure that the transactions amount will not exceed the Annual Caps;
- (ii) the sales department of the Group shall price the products with its costs as a benchmark, upon which the Group shall determine the final prices for sale to Jiangzhong Yishang Group by comparing against quotations or prices offered by the Group to at least two Independent Third Party customers;
- (iii) the procurement department of the Group shall determine whether to accept the procurement prices offered by the Jiangzhong Yishang Group by comparing the quotations or prices offered by the Jiangzhong Yishang Group to at least two Independent Third Party suppliers (whenever possible);
- (iv) the finance department of the Company will conduct monthly random checks to review and assess whether the transactions contemplated under the Framework Agreements are conducted on normal commercial terms, in accordance with the terms set out in the Framework Agreements and whether the relevant contract terms are in the interest of the Company and the Shareholders as a whole. In particular, the finance department will check whether the pricing basis have been properly followed;
- (v) the Company's external auditor will conduct an annual review of the transactions entered into under the Framework Agreements to ensure that the transactions amount is within the Annual Caps and the transactions is in accordance with the terms set out in the Framework Agreements; and
- (vi) the Company's independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the Framework Agreements to ensure that the Company has complied with its internal approval process and the relevant requirements under the Listing Rules.

In view of the internal control measures above, the Directors are of the view that appropriate measures are in place to ensure that the transactions contemplated under the Framework Agreements will be conducted on normal commercial terms and within the Annual Caps, and not prejudicial to the interest of the Company and its Shareholders.

## **IMPLICATIONS UNDER LISTING RULES**

As at the date of this announcement, Jiangzhong Yishang is a substantial shareholder of the Company, holding 29,050,000 Domestic Shares (representing approximately 26.90% of the total issued share capital of the Company). Therefore, pursuant to the Listing Rules, Jiangzhong Yishang is a connected person of the Company and the Framework Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company. Moreover, pursuant to Rule 14A.81 of the listing Rules, the transactions contemplated under the Framework Sales Agreement and the Framework Purchases Agreement should be aggregated.

As one or more of the applicable percentage ratios in respect of the Annual Caps for the Framework Sales Agreement and the Framework Purchases Agreement, both on its own and when aggregated, are expected to be higher than 5%, the Framework Agreements and the Annual Caps are subject to the reporting, announcement, shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

## INFORMATION OF THE PARTIES

The Company is a joint-stock company incorporated in the PRC with limited liability, whose H Shares are listed on the main board of the Stock Exchange. The Group is principally engaged in the pharmaceutical distribution business. It mainly distributes western medicine, Chinese patent medicine and healthcare products to downstream distributors and retail terminals, as well as provides consultation service on pharmaceutical products.

Jiangzhong Yishang is a company incorporated in the PRC with limited liability. It is principally engaged in the wholesale and retail of medicines and the sales of food, disinfection equipment and Class III medical devices. It is a Jiangxi provincial state-owned enterprise, owned as to (i) 20.5% by Jiangxi State-Owned Capital Operation Holdings Group Co. Ltd\* (江西省國有資本運營控股集團有限公司), which is ultimately controlled by State-owned Assets Supervision and Administration Commission of Jiangxi Province\* (江西省國有資產監督管理委員會); (ii) 20.5% by China Resources Jiangzhong Pharmaceutical Group Co., Ltd.\*(華潤江中製藥集團有限責任公司), which is ultimately controlled by China Resources Pharmaceutical Group Limited, whose shares are listed on the main board of the Stock Exchange (3320.hk); and (iii) the remaining 59.0% by nine other minority shareholders.

## GENERAL

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Framework Agreements and the Annual Caps. As Jiangzhong Yishang is a connected person, Jiangzhong Yishang and its associates will abstain from voting on the resolutions to approve the Framework Agreements and the Annual Caps at the EGM.

The Board (excluding the independent non-executive Directors, who will provide their opinions after receiving the advice from the independent financial adviser) is of the view that the transactions contemplated under Framework Agreements are entered into in the ordinary and usual course of business of the Group and on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on, among other things, whether or not the terms of the Framework Agreements and the Annual Caps are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned and whether the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group. Sorrento Capital Limited has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders regarding the Framework Agreements and the Annual Caps.

A circular containing, among other things, (i) further information on the Framework Agreements and the Annual Caps, (ii) the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; (iii) the recommendation from the Independent Board Committee; and (iv) a notice of the EGM is expected to be despatched to the Shareholders on or before 4 May 2022.

## DEFINITIONS

“Annual Caps”	the proposed maximum annual aggregate transaction values in respect of the transactions contemplated under the Framework Sales Agreement and/or the Framework Purchases Agreement for the three years ending 31 December 2024, as the case may be
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Charmacy Pharmaceutical Co., Ltd. (創美藥業股份有限公司), a joint stock company established in the PRC with limited liability, whose H Shares are listed and traded on the Stock Exchange (stock code: 2289)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Domestic Shares”	ordinary share(s) issued by the Company in the PRC with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in RMB by PRC natural persons or entities established under the laws of the PRC
“Effective Date”	the date on which the entering into of the Framework Agreements and the transactions contemplated hereunder and the Annual Caps, are approved by the Independent Shareholders at the EGM
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of, if thought fit, to approve the Framework Agreements and the transactions contemplated thereunder and the Annual Caps by the Independent Shareholders
“Framework Agreements”	the Framework Sales Agreement and the Framework Purchases Agreement



“Framework Sales Agreement”	the framework contract dated 11 April 2022 entered into between the Company and Jiangzhong Yishang for the sale of medicines, medical devices, healthcare products and food for which the Group acted as a Primary Distributor to Jiangzhong Yishang Group
“Framework Purchases Agreement”	the framework agreement dated 11 April 2022 entered into between the Company and Jiangzhong Yishang for the purchase of medicines, medical devices, healthcare products and food for which the Jiangzhong Yishang Group acted as a Primary Distributor from Jiangzhong Yishang Group
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with nominal value of RMB1.00 each, which is/are listed and traded on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee of the Company comprising all the independent non-executive Directors, namely Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe)
“Independent Shareholders”	the Shareholders other than Jiangzhong Yishang and its associates, who, if they hold Shares, are required to abstain from voting on the resolutions to approve the Framework Agreements and the Annual Caps at the EGM
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company, its connected persons and their respective associates
“Jiangzhong Yishang”	Jiangxi Jiangzhong Yishang Operation Co., Ltd.* (江西江中醫藥商業運營有限責任公司), a company incorporated in the PRC and a substantial shareholder (as defined under the Listing Rules) of the Company

“Jiangzhong Yishang Group”	Jiangzhong Yishang and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended, modified or otherwise supplemental from time to time
“PRC”	The People’s Republic of China which shall, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Primary Distributor”	distributors which purchase products directly from pharmaceutical manufacturers or their pharmaceutical distributor companies (regardless of whether they have obtained an exclusive distribution right or not)
“RMB”	Renminbi, the lawful currency of the PRC
“Shares(s)”	the Domestic Share(s) and/or the H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By Order of the Board  
**Charmacy Pharmaceutical Co., Ltd.**  
**Yao Chuanglong**  
*Chairman*

Shantou, the PRC, 11 April 2022

*As at the date of this announcement, the executive Directors are Mr. Yao Chuanglong and Ms. Zheng Yuyan; the non-executive Director is Mr. Li Weisheng; and the independent non-executive Directors are Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe).*

*\* For identification purpose only*