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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 FRAMEWORK LOAN AGREEMENT**

On 2 March 2023 (after trading hour), the Company as borrower and Jiangzhong Yishang, a controlling shareholder of the Company, as lender have entered into the Framework Loan Agreement, pursuant to which Jiangzhong Yishang agrees to provide a loan facility not exceeding the maximum limit as authorised by the statutory approval authorities of both parties to the Group for a term of three years commencing from the Effective Date.

IMPLICATION UNDER THE LISTING RULES

As at the date of this announcement, Jiangzhong Yishang is a controlling shareholder of the Company and is (together with parties acting in concert with it) interested in an aggregate of 84,656,500 Shares (representing approximately 78.38% 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 Loan Agreement and the transaction contemplated thereunder constitutes a continuing connected transaction of the Company.

As one or more of the applicable percentage ratios in respect of the Annual Caps for the Framework Loan Agreement are expected to be higher than 5%, the Framework Loan Agreement 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 Loan Agreement and the Annual Caps. As Jiangzhong Yishang is a connected person, Jiangzhong Yishang, and parties acting in concert with it and their respective associates will abstain from voting on the resolutions to approve the Framework Loan Agreement and the Annual Caps at the EGM.

Mr. Yan Jingbin and Ms. Fu Zheng are considered to have material interests by virtue of their employment and senior management in Jiangzhong Yishang Group. In addition, pursuant to the board level irrevocable undertaking dated 13 September 2022 executed by Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi, they have irrevocably and unconditionally undertaken to exercise their voting rights at the Board level strictly consistent with those of the Directors nominated or recommended by Jiangzhong Yishang Group, in respect of the matters concerning the daily operations and the material decisions of the Company and they would abstain from matters which the Directors related to Jiangzhong Yishang are required to abstain. Accordingly, the Abstained Directors have abstained from voting on the Board resolutions to approve the Framework Loan Agreement and the Annual Caps.

The Board (excluding (i) the Abstained Directors; and (ii) 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 transaction contemplated under the Framework Loan Agreement is entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the relevant terms and annual caps are 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 Loan Agreement 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. Kingsway 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 Loan Agreement and the Annual Caps.

A circular containing, among other things, (i) further information on the Framework Loan Agreement 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 23 March 2023.

FRAMEWORK LOAN AGREEMENT

The principal terms of the Framework Loan Agreement are as follows:

Date	2 March 2023 (after trading hours)
Parties	The Company (as borrower) and Jiangzhong Yishang (as lender)
Term	For a period of three years commencing from the Effective Date
Principal amount	The loan amount shall not exceed the maximum limit as authorised by the statutory approval authorities of both parties
Interest rate	The interest rate shall be determined by the parties with reference to the Company's cost of financing from banks or financial institutions in the same period
Repayment arrangement	Repayment arrangements shall be agreed by the parties and stated in the individual loan agreement

Early repayment	In the case of early repayment by the Company, interest shall be paid according to the actual duration of drawdown
Default	If the Company fails to repay the principal and accrued interests of the loan or commits any of the default events as specified under the individual loan agreement, the lender shall have the right to recover that particular loan on demand
Security	In accordance with Jiangzhong Yishang's financial and credit approval requirements, the Company shall provide Jiangzhong Yishang with its or its subsidiaries' inventories as a collateral, the specific ratio depends on the negotiation between the parties and the actual situation
Condition Precedent	The Framework Loan Agreement is subject to both parties obtaining their respective internal approval in relation to the entering of the Framework Loan Agreement and the transaction contemplated thereunder

THE PROPOSED ANNUAL CAPS AND BASIS OF DETERMINATION OF ANNUAL CAPS

The historical amount of loan provided by Jiangzhong Yishang to the Group for the three years ended 31 December 2022 are set out below:

	Financial year ending 31 December		
	2020	2021	2022
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Amount of loan provided by Jiangzhong Yishang to the Group	-	-	100 ^(Note)

Note: The provision of loan for the financial year ended 31 December 2022 falls under Rule 14A.90 of the Listing Rules and thus are exempted from reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Annual Caps for the Framework Loan Agreement for the three years ending 31 December 2025 are set out below:

	Financial year ending 31 December		
	2023	2024	2025
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Cap of loan that the Group applies to Jiangzhong Yishang and secured by the Group's assets	500	500	500

The Annual Caps for the three years ending 31 December 2025 for the transactions contemplated under the Framework Loan Agreement were determined after considering, among other things, the need for sufficient working capital due to increase in demand for working capital for the expected increase in direct purchases from branded pharmaceutical manufacturers as a result of the expansion to pharmaceutical terminal business of the Group.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK LOAN AGREEMENT

The signing of the Framework Loan Agreement demonstrates the continuous financial support provided by Jiangzhong Yishang as the controlling shareholder of the Company to the Group, and enables the Group to

secure scalable, stable and reliable funding support to meet its operation needs. The terms of the Framework Loan Agreement, including the applicable interest rate, are agreed upon by the parties after arm's length negotiations, taking into account, among others, the prevailing market interest rates and practices.

Taking into account (i) the financial situation of the Group and the expansion to pharmaceutical terminal business; (ii) the cash level to be maintained for the daily operation of the Group; and (iii) the available sources of fundings, the Directors (excluding the independent non-executive Directors who will express their view after considering the advice from the Independent Financial Adviser) are of the view that the Framework Loan Agreement was entered into on normal commercial terms, and the terms are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES

In order to ensure the terms of the Framework Loan Agreement 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 designated staff of the finance department of the Company will closely monitor the outstanding loan balances to be repaid under the Framework Loan Agreement and report the latest status of the loans granted under the Framework Loan Agreement to the finance department of the Company on a monthly basis to ensure that the outstanding loan balances will not exceed the Annual Caps;
- (ii) the finance department of the Company will report to the senior management on a monthly basis and the Directors (including the independent non-executive Directors) on a half-yearly basis in relation to the transaction status;
- (iii) the finance department of the Company will, before the signing of each individual loan agreement under the Framework Loan Agreement: (a) check the benchmark lending interest rate published by PBOC; and (b) compare the interest rate of the individual loan with at least two major commercial banks or financial institutions to confirm the interest rate charged by Jiangzhong Yishang is in line with the market rates and the individual loan agreements are entered into on normal commercial terms;
- (iv) the Company's external auditor will conduct an annual review of the transactions entered into under the Framework Loan Agreement 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 Loan Agreement; and
- (v) the Company's independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the Framework Loan Agreement 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 Loan Agreement 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 controlling shareholder of the Company and is (together with parties acting in concert with it) interested in an aggregate of 84,656,500 Shares (representing approximately 78.38% 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 Loan Agreement and the transaction contemplated thereunder constitutes a continuing connected transaction of the Company.

As one or more of the applicable percentage ratios in respect of the Annual Caps for the Framework Loan Agreement are expected to be higher than 5%, the Framework Loan Agreement 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 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 (Stock Code: 3320); and (iii) the remaining 59.0% by 11 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 Loan Agreement and the Annual Caps. As Jiangzhong Yishang is a connected person, Jiangzhong Yishang, and parties acting in concert with it and their respective associates will abstain from voting on the resolutions to approve the Framework Loan Agreement and the Annual Caps at the EGM.

Mr. Yan Jingbin and Ms. Fu Zheng are considered to have material interests by virtue of their employment and senior management in Jiangzhong Yishang Group. In addition, pursuant to the board level irrevocable undertaking dated 13 September 2022 executed by Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi, they have irrevocably and unconditionally undertaken to exercise their voting rights at the Board level strictly consistent with those of the Directors nominated or recommended by Jiangzhong Yishang Group, in respect of the matters concerning the daily operations and the material decisions of the Company and they would abstain from matters which the Directors related to Jiangzhong Yishang are required to abstain. Accordingly, the Abstained Directors have abstained from voting on the Board resolutions to approve the Framework Loan Agreement and the Annual Caps.

The Board (excluding (i) the Abstained Directors; and (ii) 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 transaction contemplated under the Framework Loan Agreement is entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the relevant terms and annual caps are 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 Loan Agreement 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. Kingsway 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 Loan Agreement and the Annual Caps.

A circular containing, among other things, (i) further information on the Framework Loan Agreement 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 23 March 2023.

DEFINITIONS

“Abstained Directors”	Mr. Yan Jingbin, Ms. Fu Zheng, Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi, who have abstained from voting on the Board resolutions to approve the Framework Loan Agreement and the Annual Caps
“Annual Caps”	the proposed maximum annual aggregate transaction values in respect of the transactions contemplated under the Framework Loan Agreement for the three years ending 31 December 2025
“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 Shares are listed and traded on the Main Board of 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
“Effective Date”	the date on which the entering into of the Framework Loan Agreement 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 Loan Agreement and the transactions contemplated thereunder and the Annual Caps by the Independent Shareholders
“Framework Loan Agreement”	the framework loan agreement dated 2 March 2023 entered into between the Company and Jiangzhong Yishang in relation to the grant of loan facility not exceeding the maximum limit as authorised by the statutory approval authorities of both parties by Jiangzhong Yishang to the Group for a term of three years commencing from the Effective Date

“Group”	the Company and its subsidiaries
“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 parties acting in concert with it and their respective associates, who, if they hold Shares, are required to abstain from voting on the resolutions to approve the Framework Loan Agreement 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 Pharmaceutical Commercial 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 controlling 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
“RMB”	Renminbi, the lawful currency of the PRC
“Shares(s)”	share(s) in the share capital of the Company with nominal value of RMB1.00 each
“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, 2 March 2023

As at the date of this announcement, the executive Directors are Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi; the non-executive Directors are Mr. Li Weisheng, Mr. Yan Jingbin and Ms. Fu Zheng; 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*