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華潤醫藥集團有限公司

China Resources Pharmaceutical Group Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3320)

**CONTINUING CONNECTED TRANSACTIONS
SALES FRAMEWORK AGREEMENT
REVISION OF ANNUAL CAPS AND EXTENSION OF TERM**

Reference is made to the Announcement dated 30 December 2022 in relation to the Existing Sales Framework Agreement.

SUPPLEMENTAL SALES FRAMEWORK AGREEMENT

On 17 June 2024, the Company and CR Healthcare entered into the Supplemental Sales Framework Agreement, pursuant to which the parties agreed to revise the proposed annual cap for the transactions for the year ending 31 December 2024, to extend the term of the Existing Sales Framework Agreement to 31 December 2025, and to agree on the proposed annual cap for the transactions for the year ending 31 December 2025. Save for the Annual Caps and the duration of the agreement, the other terms and conditions of the Existing Sales Framework Agreement shall remain valid and in full force and effect.

As at the date of this announcement, CR Holdings, being a controlling shareholder of the Company indirectly holding approximately 53.05% interest in the Company, holds 100% interest in CR Healthcare. Accordingly, CR Healthcare is a connected person of the Company and the transactions contemplated under the Sales Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Annual Caps under the Supplemental Sales Framework Agreement exceeds 5%, the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM AND DESPATCH OF CIRCULAR

The Company will convene the EGM for the Independent Shareholders to, among others, consider and, if thought fit, pass the relevant resolution to approve the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder.

The Independent Board Committee has been formed to advise the Independent Shareholders, and China Sunrise has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders, on (i) whether the terms of the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder are fair and reasonable; (ii) whether the transactions contemplated under the Supplemental Sales Framework Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Company, and whether they are in the interest of the Company and its Shareholders as a whole; and (iii) how to vote on the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder.

The Circular containing, among others, (i) a letter from the Board setting out the details of the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder, (ii) a letter from the Independent Board Committee to the Independent Shareholders, (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, (iv) a notice of the EGM, and (v) other information required under the Listing Rules will be dispatched to the Shareholders in compliance with the Listing Rules. As additional time is required by the Company to prepare the information to be included in the Circular, it is expected that the Circular will be dispatched to the Shareholders by or around 31 July 2024. If it is expected that there will be a delay to the dispatch of the Circular, a further announcement will be published in accordance with the Listing Rules.

BACKGROUND

Reference is made to the Announcement dated 30 December 2022 in relation to the Existing Sales Framework Agreement.

On 17 June 2024, the Company and CR Healthcare entered into the Supplemental Sales Framework Agreement, pursuant to which the parties agreed to revise the proposed annual cap for the transactions for the year ending 31 December 2024, to extend the term of the Existing Sales Framework Agreement to 31 December 2025, and to agree on the proposed annual cap for the transactions for the year ending 31 December 2025. Save for the Annual Caps and the duration of the agreement, the other terms and conditions of the Existing Sales Framework Agreement shall remain valid and in full force and effect.

THE EXISTING SALES FRAMEWORK AGREEMENT AND THE SUPPLEMENTAL SALES FRAMEWORK AGREEMENT

Principal Terms

The principal terms of the Sales Framework Agreement are set out as follows:

(1) Date of the Supplemental Sales Framework Agreement

17 June 2024

(2) Parties

(a) CR Healthcare; and

(b) The Company

(3) Term

The term of the Existing Sales Framework Agreement is from 1 January 2023 to 31 December 2024. Pursuant to the Supplemental Sales Framework Agreement, the term of the Existing Sales Framework Agreement is extended to end on 31 December 2025. Subject to compliance with the Listing Rules and other applicable laws and regulations, CR Healthcare and the Company may renew the term of the Sales Framework Agreement.

(4) *Scope*

Under the Sales Framework Agreement, the Group may from time to time supply medical and pharmaceutical products and consumables, including but not limited to prescription medicines and over-the-counter (OTC) drugs to CR Healthcare, its associates and/or the hospitals that are managed by CR Healthcare and/or its associates.

(5) *Pricing Basis and Pricing Policies*

The price of the medical and pharmaceutical products and consumables supplied under the Sales Framework Agreement shall be determined in accordance with the applicable prescribed price or guided price of that product fixed by the relevant PRC regulators, if applicable. If there is no such prescribed price or guided price for the particular product, the price shall be determined based on the then prevailing market price and arm's length negotiation between the parties.

In accordance with the relevant guiding opinions and implementation notice issued by the relevant PRC regulators in 2015, the procurement of pharmaceutical products by public hospitals and medical institutions in the PRC is subject to a centralized tendering process.

Accordingly, the Group's sale of medical and pharmaceutical products and consumables to CR Healthcare, its associates and/or the hospitals managed by CR Healthcare and/or its associates is also subject to such centralized tendering system in the PRC and, the Group, similar to other independent third party suppliers, is required to go through the selection and approval procedures adopted by CR Healthcare and its associates as well as the commercial negotiation process in order to become their suppliers. The parties also negotiate the terms of sales based on the business needs of, and the suitability of the medical and pharmaceutical products and consumables to, CR Healthcare, its associates and/or the hospitals managed by CR Healthcare and/or its associates in the ordinary and usual course of business.

The centralized tendering process generally operates as follows:

- (i) Public hospitals and medical institutions in different provinces and cities in the PRC will submit the types of medical and pharmaceutical products and consumables (except for decoction pieces) required in their ordinary course of business to the centralized procurement platform in the relevant province or region, where the suppliers will submit their bidding prices in respect of the relevant products and consumables;
- (ii) The relevant governmental authority will then determine the selling price of a particular medical and pharmaceutical product or consumable in the relevant province or region by taking into consideration mainly the bidding prices and quality of the product or consumable offered by different suppliers, and from which supplier(s) the hospitals and medical institutions in that province or region may purchase the product or consumable at such selling price; and
- (iii) Due to the nature and operation of the above-mentioned centralized tendering process, the selling price for the same type of product or consumable may vary across different provinces and regions.

After completion of the above-mentioned centralized tendering process and commercial negotiation, the Group will supply its medical and pharmaceutical products and consumables to, CR Healthcare, its associates and/or the hospitals managed by CR Healthcare and/or its associates on the agreed terms and conditions upon receiving purchase orders specifying the brand, volume and types of products and consumables.

The Group shall comply with appropriate internal procedures before it enters into any transaction under the Sales Framework Agreement with CR Healthcare, its associates and/or the hospitals managed by CR Healthcare and/or its associates. Further details of such internal policies are set out in the section headed “Internal Control Measures” in this announcement.

Historical Amounts

Set out below are the approximate historical amounts of the relevant sales by the Group to CR Healthcare and/or its associates and/or hospitals that are managed by CR Healthcare and/or its associates for the year ended 31 December 2022 and 2023:

	For the years ended 31 December	
	2022	2023
	<i>(RMB)</i>	<i>(RMB)</i>
	<i>(million)</i>	<i>(million)</i>
Relevant sales to CR Healthcare and/or its associates and/or hospitals that are managed by CR Healthcare and/or its associates	966	1,307

Annual Caps and Basis of Determination

Pursuant to the Supplemental Sales Framework Agreement, the parties agreed to revise the proposed annual cap for the transactions for the year ending 31 December 2024 and to agree on the proposed annual cap for the transactions for the year ending 31 December 2025, which are set forth as follows.

	For the year ending		For the
	31 December 2024		year ending
	<i>(RMB)</i>		31 December
	<i>(million)</i>		2025
	Existing	Revised	Proposed
	annual cap	annual cap	annual cap
Sales of medical and pharmaceutical products and consumables to CR Healthcare and/or its associates and/or hospitals that are managed by CR Healthcare and/or its associates	1,500	2,500	3,000

The Annual Caps under the Supplemental Sales Framework Agreement are determined based on arm's length negotiations between CR Healthcare and the Company with reference to, among others, the following key factors:

- (a) the historical amount of the sales of medical and pharmaceutical products by the Group to CR Healthcare and/or its associates and/or the hospitals managed by CR Healthcare and/or its associates in the amount of RMB1,307 million for the year ended 31 December 2023 under the Existing Sales Framework Agreement;
- (b) the historical amounts of the sales of medical and pharmaceutical products by the Group to CR Healthcare and/or its associates and/or the hospitals managed by CR Healthcare and/or its associates in the amount of RMB438 million for the three months ended 31 March 2024, based on the Company's unaudited management accounts;
- (c) the expected expansion of the business scale of CR Healthcare and its associates and the hospital network managed by CR Healthcare and/or its associates;
- (d) the expected increase in the demand for the Group's medical and pharmaceutical products and consumables, taking into account the overall growing market demand for medical and pharmaceutical products and consumables in the PRC and the expected substantial growth in transaction volume between the Group and CR Healthcare, its associates and/or hospitals managed by CR Healthcare and/or its associates. With the deepening national pharmaceutical reform in the PRC and driven by factors such as the aging population, rise in healthcare awareness and popularization of general hospital services in the PRC, it is expected that the market demand for medical and pharmaceutical products and consumables in the PRC will continue to grow; and
- (e) a buffer of approximately 10% for unforeseeable circumstances, such as unexpected increase in demand for products and unexpected increase in unit price of the products.

Save for the Annual Caps and the duration of the agreement, the other terms and conditions of the Existing Sales Framework Agreement shall remain valid and in full force and effect.

INTERNAL CONTROL MEASURES

The Group, similar to other independent third-party suppliers, is required to go through the selection and approval procedures of CR Healthcare as well as the commercial negotiation process in order to become a supplier of CR Healthcare, its associates and/or hospitals managed by CR Healthcare and/or its associates.

As part of the Group's internal approval and monitoring procedures relating to transactions with CR Healthcare, its associates and/or hospitals managed by CR Healthcare and/or its associates, the Group will (i) compare the terms (including the selling prices) of its products and commodities that are offered to, or quoted by, other independent customers (where available), and/or to the extent reasonably practicable, obtain market or industry data on the pricing of transactions of similar nature, scope and scale from time to time through publicly available information in order to ensure that the transactions entered into with CR Healthcare, its associates and/or hospitals managed by CR Healthcare and/or its associates under the Sales Framework Agreement are on normal commercial terms or no less favourable to the Group than those offered to independent third parties; (ii) negotiate the terms of sales based on the business needs of, and the suitability of the medical and pharmaceutical products and consumables to, CR Healthcare, its associates and/or the hospitals managed by CR Healthcare and/or its associates in their ordinary and usual course of business; and (iii) the transactions will be reviewed and passed by its internal approval procedures.

The Group has implemented adequate internal control measures for monitoring all of its continuing connected transactions, including (without limitation) the regular reporting of transaction volume to the Group's finance department for monitoring the annual caps of the relevant transactions.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Group has continued to grow its business scale and market position in respect of its supply of medical and pharmaceutical products and consumables. On the other hand, the scale of business of CR Healthcare and its associates and the hospital network managed by CR Healthcare and/or its associates have continued to expand. Accordingly, the transaction volume between the parties under the Existing Sales Framework Agreement has continued to increase. In view of the above, the parties entered into the Supplemental Sales Framework Agreement to raise the proposed annual cap for the year ending 31 December 2024 in order to meet the actual business needs of the parties in respect of the sale and purchase of medical and pharmaceutical products and consumables. Furthermore, the extended duration of agreement pursuant to the Supplemental Sales Framework Agreement can ensure steady sale of medical and pharmaceutical products and consumables from the Group to CR Healthcare and its associates and to maintain the parties' stable business relationship. It is also expected that, with the expected increase in transaction volume under the Sales Framework Agreement, the Group will be able to generate greater income stream and to further grow its pharmaceutical distribution business.

CR Healthcare and/or its associates are engaged in hospital investment and operation management. It is necessary for CR Healthcare, its associates and the hospitals managed by CR Healthcare and/or its associates to procure suitable medical and pharmaceutical products and consumables in their ordinary and usual course of business.

Taking into account the above factors, the Board (excluding the independent non-executive Directors whose views will be contained in the Circular to be published by the Company after considering the advice from the Independent Financial Adviser) considered that the Supplemental Sales Framework Agreement was negotiated on an arm's length basis and entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the relevant terms and the Annual Caps thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, CR Holdings, being a controlling shareholder of the Company indirectly holding approximately 53.05% interest in the Company, holds 100% interest in CR Healthcare. Accordingly, CR Healthcare is a connected person of the Company and the transactions contemplated under the Sales Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Annual Caps under the Supplemental Sales Framework Agreement exceeds 5%, the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has any material interest in the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder, and none of the Directors has abstained from voting on the relevant Board resolutions approving the Supplemental Sales Framework Agreement.

INFORMATION OF THE PARTIES

CR Healthcare

CR Healthcare is principally engaged in hospital investment and operation management.

The Group

The Group's core business encompasses research and development, manufacturing, distribution and retail of an extensive range of pharmaceutical and other healthcare products.

APPOINTMENT OF INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been formed to advise the Independent Shareholders and China Sunrise has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on (i) whether the terms of the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder are fair and reasonable; (ii) whether the transactions contemplated under the Supplemental Sales Framework Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Company, and whether they are in the interest of the Company and its Shareholders as a whole; and (iii) how to vote on the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder.

EGM AND DESPATCH OF CIRCULAR

The Company will convene the EGM for the Independent Shareholders to consider and, if thought fit, pass the relevant resolution to approve the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder.

Any Shareholders who have a material interest in the Supplemental Sales Framework Agreement shall abstain from voting on the ordinary resolution in relation thereto to be proposed at the EGM. As at the date of this announcement, CR Healthcare is a wholly-owned subsidiary of CR Holdings. Therefore, CR Holdings, being a controlling shareholder of the Company indirectly holding approximately 53.05% interest in the Company as of the date of this announcement, and its associates will be required to abstain from voting on the ordinary resolution in relation to the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder at the EGM. As at the date of this announcement, to the best of Directors' knowledge, information and belief having made all reasonable enquiries, save for CR Holdings and its associates, none of the other Shareholders has any material interest in the Supplemental Sales Framework Agreement and is required to abstain from voting on the ordinary resolution in relation to the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder at the EGM.

The Circular containing, among others, (i) a letter from the Board setting out the details of the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder, (ii) a letter from the Independent Board Committee to the Independent Shareholders, (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, (iv) a notice of the EGM, and (v) other information required under the Listing Rules will be dispatched to the Shareholders in compliance with the Listing Rules. As additional time is required by the Company to prepare the information to be included in the Circular, it is expected that the Circular will be dispatched to the Shareholders by or around 31 July 2024. If it is expected that there will be a delay to the dispatch of the Circular, a further announcement will be published in accordance with the Listing Rules.

DEFINITIONS

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

“Announcement”	the announcement of the Company dated 30 December 2022 in relation to the Existing Sales Framework Agreement;
“Annual Caps”	the revised annual cap for the year ending 31 December 2024 and the proposed annual cap for the year ending 31 December 2025 for the transactions contemplated under the Sales Framework Agreement as agreed in the Supplemental Sales Framework Agreement;
“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors of the Company;

“Circular”	the circular of the Company containing, among others, (i) a letter from the Board setting out the details of the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder, (ii) a letter from the Independent Board Committee to the Independent Shareholders, (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, (iv) a notice of the EGM, and (v) other information required under the Listing Rules;
“Company”	China Resources Pharmaceutical Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on The Stock Exchange of Hong Kong Limited (stock code: 3320);
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules;
“CRC”	China Resources Company Limited (中國華潤有限公司), a company established in the PRC with limited liability and a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council in the PRC, and is the ultimate holding company of the Company and CR Healthcare, respectively;
“CR Healthcare”	China Resources Healthcare Group Limited (華潤健康集團有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CR Holdings;
“CR Holdings”	China Resources (Holdings) Company Limited (華潤(集團)有限公司), a company incorporated in Hong Kong with limited liability and a controlling shareholder of the Company and is ultimately owned by CRC;

“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened and held to approve, among others, the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder;
“Existing Sales Framework Agreement”	the sales framework agreement dated 30 December 2022 entered into between the Company and CR Healthcare, the details of which were disclosed in the Announcement;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board comprising all of the independent non-executive Directors, namely Mdm. Shing Mo Han Yvonne, Mr. Kwok Kin Fun, Mr. Fu Tingmei and Mr. Zhang Kejian, established to advise the Independent Shareholders in respect of the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder;
“Independent Financial Adviser” or “China Sunrise”	China Sunrise Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Sales Framework Agreement and the transactions and the Annual Caps contemplated thereunder;
“Independent Shareholder(s)”	the Shareholder(s), other than CR Holdings and its associates and any other Shareholder who has a material interest in the transactions contemplated under the Supplemental Sales Framework Agreement, as the case may be;

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“PRC”	the People’s Republic of China, for the purposes of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sales Framework Agreement”	the Existing Sales Framework Agreement, as supplemented by the Supplemental Sales Framework Agreement;
“Shareholder(s)”	the holder(s) of shares of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules; and
“Supplemental Sales Framework Agreement”	the supplemental sales framework agreement dated 17 June 2024 entered into between the Company and CR Healthcare.

For ease of reference, the names of the PRC established companies or entities have been included in this announcement in both the Chinese and English languages, and in the event of any inconsistency, the Chinese version shall prevail.

By order of the Board
China Resources Pharmaceutical Group Limited
Han Yuewei
Chairman

PRC, 17 June 2024

As at the date of this announcement, the Board comprises Mr. Han Yuewei as chairman and non- executive Director, Mr. Bai Xiaosong, Mr. Tao Ran and Mdm. Deng Rong as executive Directors, Ms. Guo Wei, Mr. Sun Yongqiang, Mr. Guo Chuan and Mdm. Jiao Ruifang as non-executive Directors and Mdm. Shing Mo Han Yvonne, Mr. Kwok Kin Fun, Mr. Fu Tingmei and Mr. Zhang Kejian as independent non-executive Directors.