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CHARMACY PHARMACEUTICAL CO., LTD.

創美藥業股份有限公司

(a joint stock limited liability company established in the People's Republic of China)

(Stock code: 2289)

PROPOSED CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING

References are made to the prospectus of Charmacy Pharmaceutical Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 2 December 2015 (the “**Prospectus**”) and the announcement of the Company dated 11 December 2015 in relation to the offer price and allotment results announcement of the Global Offering. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Prospectus.

USE OF PROCEEDS

The actual net proceeds from the listing of H Shares of the Company on the Stock Exchange on 14 December 2015 (pursuant to the actual offer price of HK\$8.6 per H Share after deducting the underwriting commissions and other estimated expenses payable by the Company in connection with the Global Offering) were approximately RMB158.91 million, among which:

- (a) approximately RMB55.62 million or approximately 35% will be used to strengthen, expand and integrate our existing distribution network and capabilities, the details of which are set out below:
 - approximately RMB33.05 million or approximately 20.8% will be used for upgrading the logistic facilities of our logistic centres, such as the acquisition and installation of various logistic facilities (including conveyor system, barcode scanning equipment and forklifts);

- approximately RMB12.24 million or approximately 7.7% will be used for the acquisition of approximately 89 refrigerated transportation vehicles for our logistic centres in Shantou and Foshan; and
 - approximately RMB10.33 million or approximately 6.5% will be used for upgrading our information systems.
- (b) approximately RMB15.89 million or approximately 10% will be used to enhance and promote our B2B e-commerce platform, the details of which are set out below:
- approximately RMB7.63 million or approximately 4.8% will be used for enhancing the system of our B2B e-commerce platform; and
 - approximately RMB8.26 million or approximately 5.2% will be used for promotional activities of our B2B e-commerce platform including (i) periodic distribution of pharmaceutical industry and self-promotional magazine to existing and potential customers, and (ii) provision of sales discounts on selected products available on the e-commerce platform;
- (c) approximately RMB47.67 million or approximately 30% will be used for repayment of our bank borrowings;
- (d) approximately RMB23.84 million or approximately 15% will be used to acquire a pharmaceutical distribution business in Southern China region; and
- (e) approximately RMB15.89 million or approximately 10% will be used for our working capital requirement and general corporate purposes.

As at the date of this announcement, approximately RMB71.76 million of the net proceeds has not utilized.

PROPOSED CHANGE IN USE OF PROCEEDS

The breakdown of use of proceeds as set out in the Prospectus and the proposed revised allocation of actual net proceeds are summarized as below:

	Initial allocation of net proceeds <i>(Approximately RMB million)</i>	Amount utilized as at the date of this announcement <i>(Approximately RMB million)</i>	Allocation of net proceeds after proposed allocation <i>(Approximately RMB million)</i>	The remaining balance of allocation of net proceeds after proposed allocation as at the date of this announcement <i>(Approximately RMB million)</i>
To acquire pharmaceutical distribution business in Southern China region	23.84	– ¹	37.84	37.84
To strengthen, expand and integrate our distribution network development and capabilities	55.62	15.74	45.62	29.89
Including: To upgrade logistic facilities of logistic centers	33.05	1.47	11.05	9.59
To increase transportation vehicles	12.24	3.94	12.24	8.30
To upgrade information system	10.33	10.33	22.33	12.00
To enhance and promote B2B platform	15.89	7.86	11.89	4.03
Including: To upgrade and renovate B2B platform	7.63	7.63	9.63	2.00
promotional activities	8.26	0.23	2.26	2.03
To repay bank borrowings	47.67	47.67	47.67	–
For the working capital requirement and general corporate purposes	15.89	15.89	15.89	–
Total	158.91	87.15	158.91	71.76

Note 1: On 13 March 2017, the Company entered into a capital contribution agreement with the owner of Zhuhai Hengxiang Pharmaceutical Limited (珠海市恒祥醫藥有限公司), to invest RMB18 million to hold 70% of equity interests and become its controlling shareholder. As at the date of this announcement, no payment has been made for the consideration of the investment.

REASONS FOR THE PROPOSED CHANGES IN USE OF PROCEEDS

The proceeds allocated for upgrading logistic facilities of logistic centres and promotional activities of our B2B e-commerce platform have not fully utilized. As the investment capital requirement for upgrading logistic facilities of logistic centres and promotional activities of our B2B e-commerce platform is less than those of initially expected, for the purpose of enhancing the utilization efficiency of the actual net proceeds from the Global Offering of the Company, the Board resolved: (1) to reallocate the unused actual net proceeds initially allocated for upgrading logistic facilities of logistic centres, from which approximately RMB12 million will be used for upgrading information systems of the Company in order to speed up the intelligence and internet-based transformation of our corporate operation and management, and enhance team working efficiency; approximately RMB10 million will be used for acquisition of pharmaceutical distribution business of the companies in Southern China region so as to expand our distribution network, extend the customer base and boost the turnover; (2) to reallocate the unused actual net proceeds initially allocated for promotional activities of our B2B e-commerce platform, from which approximately RMB2 million will be used for enhancing the system of our B2B e-commerce platform and optimization of customers' application in order to provide premium online ordering experiences for end-users; approximately RMB4 million will be used for acquisition of pharmaceutical distribution business of the companies in Southern China region so as to expand the distribution network, extend the customer base and boost our turnover.

The above proposed changes in use of net proceeds will be beneficial for the Company to better utilize its financial resources, and the Board considered that those changes will provide the Company with more business development opportunities in the future, be more in line with the current business needs of the Company and is beneficial to the continuing and rapid development of the Group, so as to strengthen the overall market position of the Group.

The Board confirms that there is no material change in the business nature of the Group as set out in the Prospectus and considers that the above proposed changes in use of net proceeds is in the best interests of the Company and its Shareholders as a whole.

OTHER MATTERS

According to the Articles of Association of the Company and the relevant laws and regulations, the proposed reallocation of use of proceeds is subject to the approval of the Shareholders of the Company by way of ordinary resolution at the general meeting of the Company. The Company has resolved at the Board meeting held on 21 March 2017 that an ordinary resolution to consider and approve the proposed reallocation and to authorize the Board and its authorized persons to do such other related matters will be proposed at the upcoming annual general meeting of the Company (the “AGM”) to be convened by the Board in due course. A circular containing, among other things, the details of the proposed reallocation and a notice in respect of the AGM will be despatched to the Shareholders of the Company in due course.

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

Hong Kong, 21 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Yao Chuanglong, Ms. Zheng Yuyan, Mr. Fan Jianbo and Mr. Lin Zhixiong; the non-executive director of the Company is Ms. You Zeyan; and the independent non-executive directors of the Company are Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe).