
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offer, this Composite Document and/or the accompanying Form(s) of Acceptance or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Charmacy Pharmaceutical Co., Ltd. (創美藥業股份有限公司), you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser(s) or to the transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This Composite Document should be read in conjunction with the accompanying Form(s) of Acceptance, the contents of which form part of the terms of the Offer.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Form(s) of Acceptance, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form(s) of Acceptance.



江中醫藥商
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 limited liability company established in the People's
Republic of China)*



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 People's Republic of China)*
(Stock code: 2289)

**JIANGXI PHARMACEUTICAL
INVESTMENT CO., LIMITED**
江西醫藥投資有限公司
(Incorporated in Hong Kong with limited liability)

**COMPOSITE OFFER AND RESPONSE DOCUMENT
RELATING TO THE UNCONDITIONAL MANDATORY CASH OFFER BY
GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED**



國泰君安國際
GUOTAI JUNAN INTERNATIONAL
Guotai Junan Securities (Hong Kong) Limited

**FOR AND ON BEHALF OF THE OFFEROR TO ACQUIRE
ALL THE ISSUED SHARES IN CHARMACY PHARMACEUTICAL CO., LTD.
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

Financial Adviser to the Offeror



國泰君安國際
GUOTAI JUNAN INTERNATIONAL
Guotai Junan Capital Limited

Independent Financial Adviser to the Independent Board Committee



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from Guotai Junan Capital containing, among other things, details of the terms and conditions of the Offer is set out on pages 7 to 14 of this Composite Document. A letter from the Board is set out on pages 15 to 20 of this Composite Document. A letter from the Independent Board Committee containing its recommendation in respect of the Offer to the Independent Shareholders is set out on pages 21 to 22 of this Composite Document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Offer is set out on pages 23 to 41 of this Composite Document.

The procedures for acceptance and settlement of the Offer are set out on pages I-1 to I-5 in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the Offer for holders of Shares of the Company must be received by the Registrar, Computershare Hong Kong Investor Services Limited at

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by no later than 4:00 p.m. on Friday, 10 February 2023, or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.

Shareholders should inform themselves of and observe any applicable legal, tax or regulatory requirements set out in the "Important Notices" section of this Composite Document. Any persons including, without limitation, custodians, nominees and trustees who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form(s) of Acceptance to any jurisdiction outside Hong Kong should read the details in this regard which are contained in the section headed "Overseas Shareholders" in the letter from Guotai Junan Capital contained in this Composite Document before taking any action. It is the responsibility of each Overseas Shareholder wishing to accept the Offer to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes due from him / her / itself in respect of such jurisdiction. Overseas Shareholders are advised to seek professional advice on deciding whether to accept the Offer.

This Composite Document will remain on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <https://www.chmyy.com> as long as the Offer remains open. **In case of any inconsistency, the English language texts of this Composite Document and the enclosed Form of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.**

** For identification purpose only*

20 January 2023

CONTENTS

	<i>Page</i>
EXPECTED TIMETABLE	ii
IMPORTANT NOTICE	iv
DEFINITIONS	1
LETTER FROM GUOTAI JUNAN CAPITAL.....	7
LETTER FROM THE BOARD	15
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	21
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	23
APPENDIX I — FURTHER TERMS OF THE OFFER AND PROCEDURES OF ACCEPTANCE.....	I-1
APPENDIX II — FINANCIAL INFORMATION ON THE GROUP	II-1
APPENDIX III — REPORT FROM MERDEKA	III-1
APPENDIX IV — REPORT FROM SHINEWING	IV-1
APPENDIX V — GENERAL INFORMATION RELATING TO THE OFFEROR	V-1
APPENDIX VI — GENERAL INFORMATION RELATING TO THE COMPANY.....	VI-1
APPENDIX VII — DOCUMENTS ON DISPLAY.....	VII-1
ACCOMPANYING DOCUMENT – FORM OF ACCEPTANCE	

EXPECTED TIMETABLE

The timetable set out below is indicative only and may be subject to changes. Any changes to the timetable will be jointly announced by the Offeror and the Company as and when appropriate.

Despatch date of this Composite Document and the accompanying Form(s) of Acceptance and commencement date of the Offer (<i>Note 1</i>).....	Friday, 20 January 2023
Offer opens for acceptance (<i>Note 1</i>).....	Friday, 20 January 2023
Latest time and date for acceptance of the Offer (<i>Note 2</i>).....	by 4:00 p.m. on Friday, 10 February 2023
Closing Date (<i>Notes 2 and 3</i>).....	Friday, 10 February 2023
Announcement of the results of the Offer to be posted on the website of the Stock Exchange and the Company (<i>Notes 2 and 3</i>).....	by 7:00 p.m. on Friday, 10 February 2023
Latest date for posting of remittances for the amounts due in respect of valid acceptances received under the Offer (<i>Notes 3 and 4</i>).....	Tuesday, 21 February 2023

Notes:

1. The Offer, which is unconditional in all respects, is made on the date of posting of this Composite Document, and are capable of acceptance on and from Friday, 20 January 2023 until the Closing Date. Beneficial owners of Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances set out in the section headed “Right of withdrawal” in Appendix I to this Composite Document.
2. In accordance with the Takeovers Code, the Offer must initially be opened for acceptance for at least 21 days following the date on which this Composite Document is posted. The latest time and date for acceptance of the Offer is 4:00 p.m. on Friday, 10 February 2023. The Offeror reserves the right to revise or extend the Offer until such date as it may determine pursuant to the Takeovers Code. An announcement will be issued through the Stock Exchange website by 7:00 p.m. on Friday, 10 February 2023 stating whether the Offer has been revised or extended, or has expired. In the event that the Offeror decides to revise or extend the Offer, the announcement will state the next closing date of the Offer or that the Offer will remain open until further notice. In the latter case, at least 14 calendar days’ notice in writing will be given, before the extended Offer is closed, to those Shareholders who have not accepted the Offer.
3. If there is (i) a tropical cyclone warning signal number 8 or above, or (ii) a “black” rainstorm warning signal:
 - (a) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the latest date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer will remain at 4:00 p.m. on the same Business Day and the posting of remittances will remain on the same Business Day; or
 - (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer will be rescheduled to 4:00 p.m. on the following Business Day and the posting of remittances will be rescheduled to the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m. or such other day as the Executive may approve in accordance with the Takeovers Code.
4. Remittances in respect of the cash consideration (after deducting the seller’s ad valorem stamp duty) payable for the Offer will be posted to the accepting Shareholders by ordinary post at their own risk as soon as possible but in any event within seven Business Days following the date of receipt by the Registrar or by the company secretary of the Company (as the case may be) of the duly completed Form(s) of Acceptance of all the valid requisite documents.

EXPECTED TIMETABLE

5. The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares.

Unless otherwise expressly stated, all time and date references contained in this Composite Document and accompanying Form(s) of Acceptance refer to Hong Kong times and dates.

Save as mentioned above, if the latest time for the acceptance of the Offer does not take effect on the date and time as stated above, other dates mentioned above may be affected. The Offeror and the Company will jointly notify the Independent Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

IMPORTANT NOTICE

NOTICE TO THE OVERSEAS SHAREHOLDERS

The Offer is made available to all the Independent Shareholders, including the Overseas Shareholders. The availability of the Offer to any Overseas Shareholders may be affected by the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Shareholders should observe any applicable legal and regulatory requirements and, where necessary, consult their own professional advisers. It is the responsibilities of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due by such Overseas Shareholders in respect of such jurisdictions).

None of the members of the Offeror's Concert Group, the Company, Guotai Junan Capital, Guotai Junan Securities and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

Please refer to the paragraph headed "7. Overseas Shareholders" in Appendix I "Further Terms of the Offer and Procedures of Acceptance" to this Composite Document for further details.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Composite Document contains forward-looking statements, which may be identified by words such as "believe", "expect", "anticipate", "intend", "plan", "seek", "estimate", "will", "would" or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The forward-looking statements included herein are made only as at the Latest Practicable Date. The Offeror and the Company assume no obligation and do not intend to correct or update the forward-looking statements or opinions contained in this Composite Document, except as required pursuant to applicable laws or regulations, including but not limited to the Listing Rules and/or the Takeovers Code.

The Company will notify the Independent Shareholders of any material change to information contained or referred to in the Composite Document as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Acquisition”	the sale and purchase of the Sale Shares between the Transferor and the Offeror in accordance with the terms and conditions of the Share Transfer Agreement
“associate(s)”	has the meaning ascribed to it under the Takeovers Code
“Board”	the board of Directors
“Board Level Irrevocable Undertaking”	the board level irrevocable undertaking dated 13 September 2022 executed by the Transferor (being the executive Director), Ms. Zheng Yuyan and Ms. Zhang Hanzi (both being the executive Directors nominated by the Transferor) in favour of the Offeror, pursuant to which Transferor, Ms. Zheng Yuyan and Ms. Zhang Hanzi 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 the Offeror in respect of the matters concerning the daily operations and the material decisions of the Company, as further described in the paragraph headed “Board Level Irrevocable Undertaking” of the Joint Announcement
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Closing Date”	10 February 2023, the date stated in this Composite Document as the closing date of the Offer or any subsequent closing date as and may be determined and announced by the Offeror in accordance with the Takeovers Code
“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)
“Completion”	completion of the Acquisition and the entrustment of Entrusted Voting Rights in accordance with the terms and conditions of the Share Transfer Agreement
“Completion Announcement”	the joint announcement issued by the Company and Jiangzhong Yishang dated 17 January 2023 in relation to, among other things, the Completion
“Completion Date”	17 January 2023, being the date on which Completion took place

DEFINITIONS

“Composite Document”	this composite offer and response document jointly issued by Jiangzhong Yishang, the Offeror and the Company to all Shareholders in connection with the Offer in accordance with the Takeovers Code containing, among other things, the terms of the Offer, the letter of advice from the Independent Financial Adviser to the Independent Board Committee in relation to the Offer, the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Offer and the Form(s) of Acceptance
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Discloseable Transaction Announcements”	the discloseable transaction announcement of the Company dated 11 October 2022 and the clarification announcement of the Company dated 3 January 2023 in relation to, among other things, the intended land resumption
“Encumbrance(s)”	any claim, charge, mortgage, security, lien, pledge, option, equity, power of sale or other third party rights, retention of title, right of pre-emption, right of first refusal or security interest of any kind
“Entrusted Shares”	the 4,000,000 Shares which are held by the Transferor and have been pledged by the Transferor to Jiangzhong Yishang, and entrusted to the Offeror in accordance with the Share Transfer Agreement (representing approximately 3.70% of the entire issued share capital of the Company as at the Latest Practicable Date)
“Entrusted Voting Rights”	the right to exercise all direct and indirect shareholder rights in relation to the Entrusted Shares including voting rights at general meetings of Shareholders, the right to propose resolutions in general meetings of Shareholders and meetings of the Board, the right to nominate Directors, Supervisors and senior management of the Company and the right to convene extraordinary general meetings or general meetings of the Company and meetings of Directors, except that the Transferor shall retain the right, as the holders or ultimate beneficial owners of the Entrusted Shares, to dividends on the Entrusted Shares and the right to dispose of the Entrusted Shares in accordance with applicable laws and regulations and the articles of association of the Company (provided that such disposal does not violate the terms of any agreement entered (or to be entered) into by the parties), which has been entrusted by the Transferor to the Offeror pursuant to the Share Transfer Agreement
“Executive”	the executive director of the Corporate Finance Division of the SFC or any of its delegates
“Form of Acceptance”	the form of acceptance and transfer in respect of the Offer accompanying this Composite Document
“Group”	the Company and its subsidiaries from time to time

DEFINITIONS

“Guotai Junan Capital”	Guotai Junan Capital Limited, a corporation licensed under the SFO to engage in type 6 regulated activity (as defined under the SFO), and the financial adviser to the Offeror in respect of the Offer
“Guotai Junan Securities”	Guotai Junan Securities (Hong Kong) Limited, a corporation licensed under the SFO to engage in type 1, type 2 and type 4 regulated activities (as defined under the SFO) and a fellow subsidiary of Guotai Junan Capital, being the agent making the Offer for and on behalf of the Offeror
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People Republic of China
“Independent Board Committee”	the independent board committee of the Board, comprising the non-executive Director, Mr. Li Weisheng and all the independent non-executive Directors, namely Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe), established to give a recommendation to the Independent Shareholders regarding the terms of the Offer.
“Independent Financial Adviser” or “Merdeka”	Merdeka Corporate Finance Limited, a corporation licensed under the SFO to engage in type 6 (advising on corporate finance) regulated activity (as defined under the SFO), being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee in respect of the Offer
“Independent Shareholders”	Shareholders other than the Offeror’s Concert Group
“Jiangxi SASAC”	State-owned Assets Supervision and Administration Commission of Jiangxi Province* (江西省國有資產監督管理委員會)
“Jiangzhong Group”	Jiangzhong Yishang and its subsidiaries
“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 established in the PRC, a substantial shareholder (as defined under the Listing Rules) of the Company and the transferee under the Share Transfer Agreement and directly and wholly owns the Offeror as at the Latest Practicable Date
“Joint Announcement”	the announcement dated 28 September 2022 jointly issued by the Company and Jiangzhong Yishang in relation to, among other things, the Acquisition and the Offer
“Last Trading Day”	13 September 2022, being the last trading day on which the Shares were traded on the Stock Exchange prior to the issue and publication of the Joint Announcement

DEFINITIONS

“Latest Practicable Date”	17 January 2023, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document prior to its publication
“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
“Long Stop Date”	31 January 2023 (or such other date as the Offeror and the Transferor may agree in writing), being the date by which the conditions precedents to the Completion must be fulfilled, as extended and set out in the announcement jointly issued by Jiangzhong Yishang and the Company dated 29 December 2022
“Non-Accepting Shares”	has the meaning ascribed to it under the section headed “Letter from Guotai Junan Capital – Undertakings not to accept the Offer” in this Composite Document
“Non-Accepting Shareholders”	has the meaning ascribed to it under the section headed “Letter from Guotai Junan Capital – Undertakings not to accept the Offer” in this Composite Document
“Offer”	the unconditional mandatory cash offer being made by Guotai Junan Securities, for and on behalf of the Offeror, to acquire all the issued Shares other than those already owned or agreed to be acquired by the Offeror’s Concert Group pursuant to Rule 26.1 of the Takeovers Code
“Offer Period”	the period from 28 September 2022, being the date of the Joint Announcement until the Closing Date, or such other time and/or date to which the Offeror may decide to extend or revise the Offer in accordance with the Takeovers Code
“Offer Price”	the price at which the Offer will be made, being HK\$7.29 per Offer Share
“Offer Share(s)”	all the issued Share(s) other than those already acquired by the Offeror’s Concert Group
“Offeror”	Jiangxi Pharmaceutical Investment Co., Limited (江西醫藥投資有限公司), a company incorporated in Hong Kong with limited liability and is a direct wholly-owned subsidiary of Jiangzhong Yishang
“Offeror’s Concert Group”	the Offeror, its associates and parties acting in concert with any of them (including Jiangzhong Yishang and the Transferor)
“Positive Profit Alert Announcement”	the positive profit alert announcement of the Company dated 20 December 2022 in relation to, among other things, the estimate of the unaudited consolidated profit attributable to the Shareholders for

DEFINITIONS

	the 11 months ended 30 November 2022
“PRC”	the People’s Republic of China, which for the purpose of this Composite Document, excludes Hong Kong, the Macao Special Administrative Region and Taiwan
“PRC GAAP”	the Accounting Standards for Business Enterprises (企業會計準則) promulgated by the Ministry of Finance
“Registrar”	Computershare Hong Kong Investor Services Limited, the Hong Kong Branch Share Registrar of the Company, whose office is situated at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong
“Relevant Period”	the period from 28 March 2022, being the date falling six months preceding the commencement of the Offer Period up to and including the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	an aggregate of 9,720,000 Shares sold by the Transferor and acquired by the Offeror pursuant to the terms and conditions of the Share Transfer Agreement
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each
“Share Pledge Agreement”	the share pledge agreement dated 13 September 2022 entered into between the Transferor and Jiangzhong Yishang pursuant to which the Transferor agreed to pledge 2,000,000 Shares (representing approximately 1.85% of the entire issued share capital of the Company) in favour of the Jiangzhong Yishang, for securing the Transferor’s obligations under the post-completion adjustment of the consideration pursuant to the Share Transfer Agreement
“Share Transfer Agreement”	the conditional share transfer agreement dated 13 September 2022 and entered into between the Transferor and Jiangzhong Yishang in relation to the sale and purchase of the Sale Shares
“Shareholder(s)”	holder(s) of the Share(s)
“ShineWing”	ShineWing Certified Public Accountants (Special General Partnership), the Company’s auditors

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Joint Announcement”	the announcement dated 18 November 2022 jointly issued by the Company and Jiangzhong Yishang in relation to, among other things, the Offer
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Transferor”	Mr. Yao Chuanglong (姚創龍), the controlling Shareholder of the Company, the chairman of the Board, an executive Director and chief executive officer of the Group; and a member of the Offeror’s Concert Group
“%”	per cent.

Certain amounts and percentage figures included in this Composite Document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain paragraphs and tables in this Composite Document may not be an arithmetic aggregation of the figures preceding them.

LETTER FROM GUOTAI JUNAN CAPITAL



27/F, Grand Millennium Plaza
181 Queen's Road Central
Central, Hong Kong

20 January 2023

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED
FOR AND ON BEHALF OF OFFEROR TO ACQUIRE ALL THE ISSUED SHARES
IN CHARMACY PHARMACEUTICAL CO., LTD.
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

References are made to the Joint Announcement, the Supplemental Joint Announcement and the Completion Announcement. As mentioned in the Joint Announcement and the Completion Announcement, pursuant to the terms and conditions of the Share Transfer Agreement entered into by the Transferor and Jiangzhong Yishang on 13 September 2022 (after trading hours), the Transferor has conditionally agreed to sell and Jiangzhong Yishang has conditionally agreed to purchase the Sale Shares, being an aggregate of 9,720,000 Shares, representing 9.00% of the entire issued share capital of the Company as at the Latest Practicable Date, at a consideration of HK\$70,858,800, equivalent to HK\$7.29 per Sale Share.

Pursuant to the Share Transfer Agreement, the Transferor has conditionally agreed to irrevocably entrust to the Offeror the Entrusted Voting Rights of the Entrusted Shares, representing approximately 3.70% of the entire issued share capital of the Company as at the Latest Practicable Date, except that the Transferor shall retain the right, as the holders or ultimate beneficial owners of the Entrusted Shares, to dividends on the Entrusted Shares and the right to dispose of the Entrusted Shares in accordance with applicable laws and regulations and the articles of association of the Company (provided that such disposal does not violate the terms of any agreement entered (or to be entered) into by the parties thereto, including but not limited to the Share Pledge Agreement which restricts the transfer of the 2,000,000 pledged Shares, 1,000,000 Shares of which form part of the 4,000,000 Entrusted Shares being the subject matter of the Entrusted Voting Rights arrangement). The remaining 3,000,000 Entrusted Shares have been previously pledged to Jiangzhong Yishang separately and are not freely transferable.

On 17 January 2023, Jiangzhong Yishang, the Offeror and the Company jointly announced the Completion. Immediately after Completion and as at the Latest Practicable Date, (i) Jiangzhong Yishang and the Offeror beneficially own 38,770,000 Shares, representing 35.90% of the entire issued share capital of the Company as at the Latest Practicable Date; (ii) Jiangzhong Yishang and the Offeror have acquired or controlled approximately 39.60% of the voting rights of the Company (comprising the voting rights of the Shares held by Jiangzhong Yishang, the Sale Shares held by the Offeror and the Entrusted Shares, which represent approximately 26.90%, 9.00% and 3.70% of the entire issued share capital of the Company respectively as at the Latest Practicable Date); and (iii) the Offeror's Concert Group (including the Transferor) beneficially owns an aggregate of 73,300,000 Shares, representing 67.87% of the entire issued share capital of the Company as at the Latest Practicable Date.

Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror's Concert Group). The Offeror, through Guotai Junan Securities, is making the Offer for all the Offer Shares pursuant to Rule 26.1 of the Takeovers Code.

This letter forms part of this Composite Document and sets out, amongst other things, the details of the Offers, certain information on the Offeror, and the intention of the Offeror on the Group. Further terms of the Offers

LETTER FROM GUOTAI JUNAN CAPITAL

and the procedures for acceptances of the Offers are set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

Independent Shareholders are strongly advised to carefully consider the information contained in the “Letter from the Board”, the “Letter from the Independent Board Committee” and the “Letter from Independent Financial Adviser” and the appendices as set out in this Composite Document before reaching a decision as to whether or not to accept the Offers.

INFORMATION OF THE OFFER

Consideration for the Offer

Guotai Junan Securities is making the Offer on behalf of the Offeror, subject to the terms set out in this Composite Document and in the Form(s) of Acceptance, on the following basis:

For each Offer Share..... HK\$7.29 in cash

The Offer Price of HK\$7.29 per Offer Share is equal to the consideration of HK\$7.29 per Sale Share under the Share Transfer Agreement.

The Offer Price will not be affected by the post-Completion adjustment of consideration, if any, as stipulated in the section headed “The Share Transfer Agreement — Adjustment of Consideration” of the Joint Announcement.

As at the Latest Practicable Date, there are 108,000,000 Shares in issue and the Company does not have any outstanding options, warrants, derivatives or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares. Further details of the terms of the Offer and the procedures for acceptance and settlement and acceptance period are set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

The Shares acquired under the Offer shall be fully paid and free from all Encumbrances together with all rights attaching to them on or after the date on which the Offer is made (i.e. the date of this Composite Document), including the right to receive in full all dividends or other distributions, if any, declared, made or paid on or after the date on which the Offer is made.

The Company confirms that as at the Latest Practicable Date, (i) it has not declared any dividend which remains unpaid, (ii) it does not intend to declare any dividend the record date of which will fall on or after the date of this Composite Document, and (iii) it does not intend to make, declare or pay any future dividend or make other distributions before the closing of the Offer.

Comparisons of value

The Offer Price of HK\$7.29 per Share represents:

- (i) a premium of approximately 3.99% to the closing price of HK\$7.01 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 1.49% to the closing price of HK\$7.40 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 1.75% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day of HK\$7.42 per Share;
- (iv) a discount of approximately 2.67% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$7.49 per Share;

LETTER FROM GUOTAI JUNAN CAPITAL

- (v) a discount of approximately 1.75% to the average of the closing prices of the Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day of approximately HK\$7.42 per Share;
- (vi) a premium of approximately 8.81% to the average of the closing prices of the Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Day of approximately HK\$6.70 per Share;
- (vii) a premium of approximately 37.03% over the audited consolidated net asset value of the Group of approximately HK\$5.32 per Share as at 31 December 2021 based on 108,000,000 Shares in issue as at the Latest Practicable Date; and
- (viii) a premium of approximately 31.83% over the unaudited consolidated net asset value of the Group of approximately HK\$5.53 per Share as at 30 June 2022 based on 108,000,000 Shares in issue as at the Latest Practicable Date.

Highest and lowest H Share prices

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$ 8.20 per Share on 30 June 2022 and HK\$6.10 per Share on 28 March 2022, respectively.

UNDERTAKINGS NOT TO ACCEPT THE OFFER

According to information provided to Jiangzhong Yishang and the Offeror, the persons/entities listed in the table below (the “**Non-Accepting Shareholders**”) have executed irrevocable undertakings not to accept the Offer in respect of 20,571,000 in aggregate (the “**Non-Accepting Shares**”), representing approximately 19.05% of the entire issued share capital of the Company as at the date of the Latest Practicable Date, pursuant to which each Non-Accepting Shareholder has irrevocably undertaken to Jiangzhong Group (including the Offeror) not to accept the Offer in respect of its respective Non-Accepting Shares and, until the close of the offer period of the Offer, not to sell, transfer, charge, pledge or otherwise dispose of any of its respective Non-Accepting Shares or any interests in its respective Non-Accepting Shares.

No.	Beneficial owner(s), general partner(s) or investment manager of the Non-Accepting Shareholder (based on information known to the Offeror)	Name of Non-Accepting Shareholders	Number of Non-Accepting Shares	Approximate shareholding percentage (%)
1	Not applicable	Wang Yonghui* (王永輝)	3,488,000	3.23
2	Kingworld Medicines Group Limited ⁽¹⁾	Kingworld Medicines Health Management Limited* (金活醫藥健康管理有限公司) (“ Kingworld Health ”)	2,302,000	2.13
3	Zeng Ni* (曾霓) ⁽²⁾	Shantou Meizhi Investment Management Limited Partnership* (汕頭市美智投資管理合夥企業 (有限合伙)) (“ Meizhi Investment ”)	3,200,000	2.96
4	Liu Yilin* (劉藝麟) ⁽³⁾	Shantou Zhichuang Investment Management Limited Partnership* (汕頭市智創投資管理合夥企業 (有限合伙)) (“ Zhichuang Investment ”)	1,800,000	1.67

LETTER FROM GUOTAI JUNAN CAPITAL

5	Wang Xiangling* (王湘玲) ⁽⁴⁾	Shantou Youran Investment Management Limited Partnership* (汕頭市悠然投資管理合夥企業(有限合伙)) (“ Youran Investment ”)	1,700,000	1.57
6	RAYS Capital Partners Limited (“ RAYS Capital ”) ⁽⁵⁾	RAYS Capital	5,364,000	4.97
7	Not applicable	Zhang Sudan* (張蘇丹)	1,343,000	1.24
8	Not applicable	Yu Haiyuan* (余海遠)	1,055,000	0.98
9	Not applicable	Tan Shurong* (譚淑容)	319,000	0.30
	Total:		20,571,000	19.05

Notes:

- (1) Kingworld Health is a wholly-owned subsidiary of Kingworld Medicines Group Limited (stock code: 1110).
- (2) Zeng Ni is the general partner of Meizhi Investment, which is a shareholding platform and mainly consisted of employees of the Company.
- (3) Liu Yilin is the general partner of Zhichuang Investment, which is a shareholding platform and mainly consisted of employees of the Company.
- (4) Wang Xiangling is the general partner of Youran Investment, which is a shareholding platform and mainly consisted of employees of the Company.
- (5) Among the 5,364,000 shares, 5,062,500 shares are held by Asian Equity Special Opportunities Portfolio Master Fund Limited (“**Asian Equity**”) and 301,500 shares are held by Asian Healthcare Discovery Master Fund (“**Asian Healthcare**”). Asian Equity and Asian Healthcare are both open-end investment companies incorporated in the Cayman Islands with limited liability; and both are managed by RAYS Capital, an independent third party, licensed to carry out type 4 and type 9 regulated activities (as defined under the SFO). Apart from the aforesaid Shares, RAYS Capital manages 35,000 Shares in a separate discretionary account, which Shares are not subject to any irrevocable commitment to accept or reject the Offer.

In the event that (i) the Offer, under the circumstances permitted under the Takeovers Code, lapses or is withdrawn or the offer period in respect of the Offer ends; or (ii) the Offer Price made by the Offeror is higher than the consideration per Sale Share, the unconditional irrevocable undertakings provided by the Non-Accepting Shareholders to Jiangzhong Group (including the Offeror) in respect of the above and in respect of the following matters shall cease to bind them:

- (i) not to sell, transfer, charge, pledge, grant any option over, or otherwise dispose of or create any encumbrances in respect of any of its respective Non-Accepting Shares or any interests in its respective Non-Accepting Shares during the offer period in respect of the Offer;
- (ii) not to enter into any agreement in respect of voting or other rights attaching to any of its respective Non-Accepting Shares (including entering into any swap agreement or other arrangement for the transfer to another party of all or part of the economic consequences of, or rights incidental to, ownership of its respective Non-Accepting Shares or interests in its respective Non-Accepting Shares);
- (iii) not to accept or give any undertaking (whether conditional or not) to accept or agree to any offer, scheme of arrangement, acquisition, merger made or proposed to be made by any person in respect of any of its respective Non-Accepting Shares or to do any act which would or might prejudice the success of the Offer;
- (iv) not to participate in or reach any discussions, negotiations, agreements or arrangements or take up any obligations (or permit the aforementioned circumstances to occur) in relation to its respective Non-Accepting Shares or the actions referred to in (i), (ii) or (iii) above; or enable any person (other than the Jiangzhong Group and any other person authorised by it) to obtain any information in relation to the foregoing.

LETTER FROM GUOTAI JUNAN CAPITAL

TOTAL CONSIDERATION UNDER THE OFFER

Assuming that there is no change in the issued share capital of the Company and based on the Offer Price of HK\$7.29 per Share and 108,000,000 Shares in issue at the Latest Practicable Date, the entire issued share capital of the Company is valued at HK\$787,320,000. Save for the aforementioned, the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

As the Offeror's Concert Group was interested in an aggregate of 73,300,000 Shares as at the Latest Practicable Date and the Non-Accepting Shareholders hold in aggregate 20,571,000 Non-Accepting Shares, 14,129,000 Shares will be subject to the Offer. As at the Latest Practicable Date, save for the unconditional irrevocable undertakings provided by the Non-Accepting Shareholders not to accept the Offer, none of the member of the Offeror's Concert Group has received any irrevocable commitment to accept or not to accept or reject the Offer.

Based on the Offer Price of HK\$7.29 per Share, the maximum consideration of the Offer would be HK\$103,000,410, assuming there is no change in the number of issued Shares or the Shares under the Offer as at the Latest Practicable Date and up to the close of the Offer. The Company has not declared and has no intention of declaring any dividend or making any distribution before the close of the Offer.

CONFIRMATION OF FINANCIAL RESOURCES SUFFICIENCY

The Offeror intends to finance the consideration payable for the Offer by its internal resources. Guotai Junan Capital, being the financial adviser to the Offeror in respect of the Offer, is satisfied that sufficient financial resources are available to the Offeror to satisfy the consideration payable upon full acceptance of the Offer (other than in respect of the Non-Accepting Shares).

EFFECTS OF ACCEPTING THE OFFER

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of Shares or any other conditions.

By accepting the Offer, Shareholders will sell their Shares free from all Encumbrances and together with all rights accruing or attaching to them, including, without limitation, the right to receive all dividends and distributions which may be recommended, declared, made or paid, if any, at any time on or after the date on which the Offer is made, being the date of posting of the Composite Document. Acceptance of the Offer by any Shareholder will be deemed to constitute a warranty by such person that all Shares sold by such person under the Offer are free from all Encumbrances and together with all rights accruing or attaching to them, including, without limitation, the right to receive all dividends and distributions which may be recommended, declared, made or paid, if any, at any time on or after the date on which the Offer is made. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

The Company has not declared and has no intention of declaring any dividend or making any distribution before the close of the Offer.

HONG KONG STAMP DUTY

Seller's ad valorem stamp duty arising in connection with acceptance of the Offer amounting to 0.13% of the amount payable in respect of relevant acceptances by the Shareholders, or (if higher) the market value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), will be deducted from the cash amount payable to the Shareholders who accept the Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of accepting Shareholders and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Offer.

PAYMENT

Payment in cash in respect of acceptances of the Offer will be made as soon as possible but in any event within seven (7) Business Days following the date on which the duly completed acceptances of the Offer and the relevant documents of title of the Shares in respect of such acceptances are received by the Offeror to render each such acceptance complete and valid.

LETTER FROM GUOTAI JUNAN CAPITAL

No fractions of a cent will be payable and the amount of cash consideration payable to a Shareholder who accepts the Offer will be rounded up to the nearest cent.

TAXATION ADVICE

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the members of the Offeror's Concert Group, the Company, Guotai Junan Capital, Guotai Junan Securities and their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

COMPULSORY ACQUISITION

The Offeror does not intend to exercise any right which may be available to it to acquire compulsorily any Shares not tendered for acceptance under the Offer.

SHAREHOLDINGS AND DEALING IN SECURITIES OF THE COMPANY

Your attention is drawn to the section headed "4. Dealings" of Appendix V to this Composite Document. Save as disclosed in that section, as at the Latest Practicable Date, there are no other shareholdings in the Company:

- (1) of Jiangzhong Yishang and the Offeror;
- (2) in which the directors of Jiangzhong Yishang and the Offeror are interested;
- (3) which any member of the Offeror's Concert Group owns or controls;
- (4) which any member of the Offeror's Concert Group has borrowed or lent; or
- (5) which the persons identified in paragraphs (1) to (4) above have dealt for value during the Relevant Period.

Nor are there any other arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which exist between the Offeror, or the Offeror's Concert Group, and any other person.

INFORMATION ON THE OFFEROR

The Offeror is a limited liability company incorporated in Hong Kong, and is a direct wholly-owned subsidiary of Jiangzhong Yishang. The Offeror is primarily engaged in investment holding. As at the Latest Practicable Date, the sole director of the Offeror is Mr. Yan Jingbin.

Jiangzhong Yishang is a company established 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) 20.50% 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 Jiangxi SASAC; (ii) 20.50% 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.hk); (iii) 15.60% by Zhangshu Xinghao Enterprise Consulting Service Center (Limited Partnership)* (樟樹市興浩企業諮詢服務中心(有限合夥)); (iv) 10.20% by Nanchang Zhonghe Medical Management Center (Limited Partnership)* (南昌市衆合醫藥管理中心(有限合夥)); (v) 9.80% by Nanchang Zhongcheng Pharmaceutical Management Center (Limited Partnership)* (南昌市衆誠醫藥管理中心(有限合夥)); (vi) 4.50% by Qingshen Chunhui Agricultural Development Co., Ltd.* (青神春暉農業發展有限公司); (vii) 4.00% by Shanghai Yingyin Enterprise Management Partnership (Limited Partnership)* (上海瀛胤企業管理合夥企業(有限合夥)); (viii) 3.70% by Baoding Zeshun Transportation Co., Ltd.* (保定澤順運輸有限公司); (ix) 3.60% by Zhangshu Xingzhi Enterprise Consulting Service Center (Limited Partnership)* (樟樹市興志企業諮詢服務中心(有限合夥)); (x) 3.00% by Dalian Kangrong Management Consulting Partnership (Limited Partnership)* (大連康

LETTER FROM GUOTAI JUNAN CAPITAL

融管理諮詢合夥企業（有限合夥））；(xi) 2.00% by Shandong Changzhi Medicine Co., Ltd.*（山東長智醫藥有限責任公司）；(xii) 1.40% by Tangshan Yatai Enterprise Management Consulting Partnership (Limited Partnership)*（唐山雅泰企業管理諮詢合夥企業（有限合夥））；and (xiii) 1.2% by Hainan Hongfu Investment Partnership (Limited Partnership)*（海南洪福投資合夥企業（有限合夥））。As at the Latest Practicable Date, save and except Jiangxi State-Owned Capital Operation Holdings Group Co. Ltd and China Resources Jiangzhong Pharmaceutical Group Co., Ltd., none of the shareholders individually controlled more than 20% shareholding of the Jiangzhong Yishang.

As at the Latest Practicable Date, the directors of Jiangzhong Yishang are Mr. Liu Weiquan, Mr. Yan Jingbin, Mr. Wu Xiaohong, Mr. Huang Xingzhi, Mr. Chen Yong, Mr. Lin Xingyao, Ms. Luo Yi, Mr. Cheng Wang and Mr. Xu Zhengqing.

INFORMATION ON THE GROUP

The Company is a joint-stock company established 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.

Further details of the information on the Group are set out in the “Letter from the Board” of this Composite Document. Financial information of the Group is set out in Appendix II to this Composite Document.

FURTHER INTENTIONS OF THE OFFEROR REGARDING THE GROUP

The Offeror intends to continue the business of the Group and maintain the employment of the operational and administrative employees of the Group (except for the proposed changes to the members of the Board as detailed in the sub-paragraph headed “Proposed change of Board and supervisory committee composition” below).

As at the Latest Practicable Date, the Offeror has no intention or plans for any acquisition or disposal of assets and/or business of the Group. However, the Offeror will, following completion of the Offer, conduct a detailed review of the operations of the Group and formulate feasible business strategies with a view to developing a sustainable corporate strategy to broaden its income stream, which may include rebalancing the resources of the Group should appropriate opportunities arise.

PROPOSED CHANGE OF THE BOARD AND SUPERVISORY COMMITTEE COMPOSITION

As at the Latest Practicable Date, the Board is currently made up of three executive Directors, three non-executive Directors and three independent non-executive Directors. Pursuant to the Share Transfer Agreement and subject to the Takeovers Code, within 60 days after Completion, the Transferor and Jiangzhong Yishang shall endeavour to cause (i) three and two persons as respectively nominated by (a) Jiangzhong Yishang or its wholly-owned subsidiary (including the Offeror) and (b) the Transferor to be appointed as Directors; (ii) a Director as nominated by Jiangzhong Yishang to be appointed as the chairman of the Board; (iii) a supervisor of the Company as nominated by Jiangzhong Yishang to be appointed as the chairman of the supervisory committee of the Company; and (iv) a person as nominated by Jiangzhong Yishang to be appointed as the financial responsible person.

The Offeror intends to nominate new Directors to the Board after the Closing Date in compliance with the Takeovers Code, the Listing Rules or other applicable regulations. As at the Latest Practicable Date, the Offeror has not identified any personnel for the purpose of appointment as the new Directors of the Company. Further announcement(s) will be made upon any changes to the composition to the Board as and when appropriate pursuant to the Listing Rules and/or the Takeovers Code.

LETTER FROM THE BOARD



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 People's Republic of China)
(Stock code: 2289)

Executive Directors:

Mr. Yao Chuanglong (*Chairman*)
Ms. Zheng Yuyan
Ms. Zhang Hanzi

Non-executive Directors:

Mr. Li Weisheng
Mr. Yan Jingbin
Ms. Fu Zheng

Independent Non-executive Directors:

Mr. Wan Chi Wai Anthony
Mr. Zhou Tao
Mr. Guan Jian (also known as Guan Suzhe)

Registered Office and Headquarters in the PRC:

No. 235
Song Shan North Road
Longhu District, Shantou City
Guandong Province, the PRC

Principal Place of Business in Hong Kong:

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai, Hong Kong

20 January 2023

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY GUOTAI JUNAN
SECURITIES (HONG KONG) LIMITED FOR AND ON BEHALF OF THE
OFFEROR TO ACQUIRE ALL THE ISSUED SHARES IN CHARMACY
PHARMACEUTICAL CO., LTD. (OTHER THAN THOSE ALREADY
OWNED OR AGREED TO BE ACQUIRED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

References are made to the Joint Announcement, the Supplemental Joint Announcement and the Completion Announcement.

As disclosed in the Joint Announcement, the Board was informed by the Transferor that on 13 September 2022 (after trading hours), the Transferor (as transferor) and Jiangzhong Yishang (as transferee) entered into the Share Transfer Agreement, pursuant to which the Transferor conditionally agreed to sell and the Offeror conditionally agreed to purchase the Sale Shares, representing 9.00% of the entire issued share capital of the Company as at the date of the Joint Announcement, for the aggregate consideration of HK\$70,858,800, being HK\$7.29 per Sale Share. The Completion took place on 17 January 2023 in accordance with the terms and conditions of the Share Transfer Agreement.

Immediately following Completion and as at the Latest Practicable Date, (i) Jiangzhong Yishang and the Offeror beneficially own 38,770,000 Shares, representing 35.90% of the entire issued share capital of the Company as at the Latest Practicable Date; (ii) Jiangzhong Yishang and the Offeror have acquired or controlled approximately 39.60% of the voting rights of the Company (comprising the voting rights of the Shares held by Jiangzhong Yishang, the Sale Shares held by the Offeror and the Entrusted Shares, which represent approximately 26.90%, 9.00% and 3.70% of the entire issued share capital of the Company respectively as at the Latest Practicable Date); and (iii) the Offeror's Concert Group (including the Transferor) beneficially owns an aggregate of 73,300,000 Shares, representing 67.87% of the entire issued share capital of the Company as at the

LETTER FROM THE BOARD

Latest Practicable Date. Under Rule 26.1 of the Takeovers Code, following Completion, the Offeror is required to make an unconditional mandatory cash offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror's Concert Group). Guotai Junan Securities will, on behalf of the Offeror, make the Offer in cash in compliance with the Takeovers Code. The Offer Price is HK\$7.29 in cash for each Offer Share.

Pursuant to the Share Transfer Agreement, the Transferor has conditionally agreed to irrevocably entrust to the Offeror the Entrusted Voting Rights of the Entrusted Shares, representing approximately 3.70% of the entire issued share capital of the Company as at the Latest Practicable Date, except that the Transferor shall retain the right, as the holders or ultimate beneficial owners of the Entrusted Shares, to dividends on the Entrusted Shares and the right to dispose of the Entrusted Shares in accordance with applicable laws and regulations and the articles of association of the Company (provided that such disposal does not violate the terms of any agreement entered (or to be entered) into by the parties thereto, including but not limited to the Share Pledge Agreement which restricts the transfer of the 2,000,000 pledged Shares, 1,000,000 Shares of which form part of the 4,000,000 Entrusted Shares being the subject matter of the Entrusted Voting Rights arrangement). The remaining 3,000,000 Entrusted Shares have been previously pledged to Jiangzhong Yishang separately and are not freely transferable.

The purpose of this Composite Document is to provide you with, among other things, (i) information relating to the Group, the Offeror and the Offer; (ii) the letter from Guotai Junan Capital containing the principal terms of the Offer; (iii) the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the terms of the Offer and as to the acceptance thereof; and (iv) the letter from the Independent Financial Adviser containing their advice to the Independent Board Committee in respect of the terms of the Offer and as to the acceptance thereof.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising the non-executive Director, Mr. Li Weisheng and all the independent non-executive Directors, namely Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe), has been established in accordance with Rules 2.1 and 2.8 of the Takeovers Code to advise and give a recommendation to the Independent Shareholders in respect of the Offer as to whether the terms of the Offer are fair and reasonable and as to the acceptance thereof. The remaining two non-executive Directors, namely Mr. Yan Jingbin and Ms. Fu Zheng, are Directors related to Jiangzhong Yishang and have direct interest in the Offer. Mr. Yan Jingbin has been working as the general manager of Jiangzhong Yishang since December 2018. Ms. Fu Zheng has served as a deputy general manager of Jiangzhong Yishang since June 2020. Therefore, they are not included as members of the Independent Board Committee.

Merdeka has been appointed as the Independent Financial Adviser of the Company with the approval of the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code, to advise the Independent Board Committee in respect of the Offer and, in particular, as to whether the Offer is fair and reasonable and as to the acceptance thereof.

The full text of the letter from the Independent Board Committee addressed to the Independent Shareholders and the letter from the Independent Financial Adviser addressed to the Independent Board Committee and the Independent Shareholders are set out in this Composite Document. **You are advised to read both letters and the additional information contained in the appendices to this Composite Document carefully before taking any action in respect of the Offer.**

THE OFFER

As mentioned in the "Letter from Guotai Junan Capital" contained in this Composite Document, Guotai Junan Securities is making the Offer in accordance with the Takeovers Code on the following basis:

For each Offer Share.....HK\$7.29 in cash

The Offer Price of HK\$7.29 per Offer Share is equal to the consideration of HK\$7.29 per Sale Share under the Share Transfer Agreement.

LETTER FROM THE BOARD

Further details of the Offer, including terms and procedures for acceptance of the Offer, are contained in the “Letter from Guotai Junan Capital” in, and Appendix I to, this Composite Document and the accompanying Form of Acceptance.

The Offer is unconditional in all aspects and is not conditional upon acceptances being received in respect of a minimum number of Shares or other conditions.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the issued share capital of the Company was RMB108,000,000 divided into 108,000,000 ordinary Shares. The Company does not have any outstanding options, warrants, derivatives or convertible rights affecting the Shares.

Set out below is the shareholding structure of the Company (i) immediately prior to Completion; (ii) immediately following Completion and as at the Latest Practicable Date:

	Immediately prior to Completion		Immediately following Completion and as at the Latest Practicable Date	
	<i>No. of Shares</i>	<i>Approximate % of issued Shares</i>	<i>No. of Shares</i>	<i>Approximate % of issued Shares</i>
The Offeror’s Concert Group (including the Transferor)				
Jiangzhong	29,050,000	26.90	38,770,000	35.90 ⁽¹⁾
Yishang and the Offeror				
The Transferor	44,250,000	40.97	34,530,000	31.97
The Offeror’s Concert Group (including the Transferor)	73,300,000	67.87	73,300,000	67.87
Non-Accepting Shares held by Non-Accepting Shareholders				
Wang Yonghui	3,488,000	3.23	3,488,000	3.23
Kingworld Health	2,302,000	2.13	2,302,000	2.13
Meizhi Investment	3,200,000	2.96	3,200,000	2.96
Zhichuang Investment	1,800,000	1.67	1,800,000	1.67
Youran Investment	1,700,000	1.57	1,700,000	1.57
RAYS Capital ⁽²⁾	5,364,000	4.97	5,364,000	4.97
Zhang Sudan	1,343,000	1.24	1,343,000	1.24
Yu Haiyuan	1,055,000	0.98	1,055,000	0.98
Tan Shurong	319,000	0.30	319,000	0.30
Sub-total of Non-Accepting Shares held by Non-Accepting Shareholders	20,571,000	19.05	20,571,000	19.05
Other Shareholders	14,129,000	13.08	14,129,000	13.08
Total	108,000,000	100.00	108,000,000	100.00

Note:

- (1) Immediately following Completion and as at the Latest Practicable Date, (i) Jiangzhong Yishang and the Offeror own 38,770,000 Shares, representing 35.90% of the entire issued share capital of the Company as at the Latest Practicable Date; and (ii) Jiangzhong Yishang and the Offeror have acquired or controlled approximately 39.60% of the voting rights of the Company (comprising the voting rights of Shares it held immediately prior to the Completion, the Sale Shares and the Entrusted Shares, which represent approximately 26.90%, 9.00% and 3.70% of the entire issued share capital of the Company respectively as at the Latest Practicable Date).

LETTER FROM THE BOARD

- (2) The 35,000 Shares, which are (i) managed by RAYS Capital in a separate discretionary account and (ii) not subject to any irrevocable commitment to accept or reject the Offer, are not included.

INFORMATION ON THE GROUP

The Company is a joint-stock company established 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.

Further details of the Group are set out in Appendices II and VI to this Composite Document.

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed “Information on the Offeror” in the “Letter from Guotai Junan Capital” contained in this Composite Document.

PROFIT ESTIMATES

As set out in the Discloseable Transaction Announcements, it is estimated that there would be a gain before tax of approximately RMB67.12 million (the “**Estimated Gain from Land Resumption**”) under the intended land resumption.

As set out in the Positive Profit Alert Announcement, based on a preliminary review of the unaudited consolidated management accounts of the Company for the 11 months ended 30 November 2022, and other information currently available to the management of the Company, the Group is expected to record an unaudited profit attributable to the Shareholders for the 11 months ended 30 November 2022 of approximately RMB32 million (the “**Profit Alert**”, together with the Estimated Gain from Land Resumption, the “**Profit Estimates**”), which represents a significant increase as compared with: (i) the audited net profit attributable to shareholders of the parent company for the year ended 31 December 2021 of approximately RMB23 million; and (ii) the unaudited net profit attributable to shareholders of the parent company for the six months ended 30 June 2022 of approximately RMB21 million. The Board believes the significant increase in unaudited profit attributable to the Shareholders for the 11 months ended 30 November 2022 was mainly attributable to: (i) an increase in revenue from low bases for the year ended 31 December 2021 and for the six months ended 30 June 2022 which were due to the decrease in customer flow and sales at retail pharmacies in Guangdong Province under the COVID-19 pandemic restrictive measures; and (ii) the effective expansion of the third party pharmaceutical logistics business during the 11 months ended 30 November 2022.

The Estimated Gain from Land Resumption was not taken into account in the management accounts of the Company for the 11 months ended 30 November 2022 and the Profit Alert. In December 2022, the transfer of ownership of the subject land and construction has been registered under the relevant government authority in the PRC.

Each of the Estimated Gain from Land Resumption and the Profit Alert constitutes a “profit forecast” under Rule 10 of the Takeovers Code and shall be reported on by the Independent Financial Adviser and the Company’s auditors in accordance with the requirements under Rule 10 of the Takeovers Code. The Profit Estimates have been reported on by ShineWing and Merdeka. ShineWing has reported that, so far as the accounting policies and calculations are concerned, the Directors have properly compiled the Profit Estimates in accordance with the bases adopted by the Directors and the Profit Estimates are presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Merdeka is satisfied that the Profit Estimates have been made by the Directors with due care and consideration.

Your attention is drawn to the reports issued by Merdeka and ShineWing on the Profit Estimates set out in Appendix III and Appendix IV to this Composite Document respectively.

INTENTION OF THE OFFEROR REGARDING THE GROUP

Your attention is drawn to the sections headed “Information on the Offeror” and “Further Intentions of the Offeror regarding the Group” in the “Letter from Guotai Junan Capital” contained in this Composite Document.

LETTER FROM THE BOARD

The Offeror will, following completion of the Offer, conduct a detailed review of the operations of the Group and formulate feasible business strategies with a view to developing a sustainable corporate strategy to broaden its income stream, which may include rebalancing the resources of the Group should appropriate opportunities arise. Save for the above and the proposed change of the Board and supervisory committee composition as described in the section headed “Proposed change of Board and supervisory committee composition” in the “Letter from Guotai Junan Capital”, the Company is given to understand from the Offeror that it has no intention to (i) discontinue the employment of any employees of the Group or change the composition of the board of the directors of the Group’s subsidiaries; (ii) redeploy the fixed assets of the Group other than those in its ordinary and usual course of business; or (iii) introduce any major changes in the existing operations and business of the Group, following the close of the Offer. Based on the above, the Board is of the view that the intention of the Offeror in relation to the Group and its employees is reasonable as it would ensure continuity and stability of the Group’s business operations going forward and is not expected to have a material adverse impact on the existing business of the Group.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

Therefore, it should be noted that upon close of the Offer, there may be insufficient public float of the Shares and the trading in the Shares may be suspended until sufficient public float exists for the Shares.

The Board noted from the “Letter from Guotai Junan Capital” contained in this Composite Document that (i) the Offeror intends the Company to remain listed on the Stock Exchange; and (ii) the sole director of the Offeror and the new Director(s) to be appointed by the Offeror to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

These appropriate steps may include but not limited to disposal of Shares held by the Offeror’s Concert Group and/or issue of additional Shares by the Company for this purpose. The Company and the Offeror will issue further announcement(s) as and when necessary in this regard.

RECOMMENDATION

Your attention is drawn to the “Letter from the Independent Board Committee” and the “Letter from the Independent Financial Adviser” set out in this Composite Document, which contain, among other things, their advice in relation to the Offer and the principal factors considered by them in arriving at their recommendation. The Independent Shareholders are urged to read those letters carefully before taking any action in respect of the Offer.

ADDITIONAL INFORMATION

You are also advised to read this Composite Document together with the accompanying Form of Acceptance in respect of the acceptance and settlement procedures of the Offer. Your attention is drawn to the additional information contained in the appendices to this Composite Document.

LETTER FROM THE BOARD

In considering what action to take in connection with the Offer, you should also consider your own tax positions, if any, and in case of doubt, consult your professional advisers.

Yours faithfully,
For and on behalf of the Board
Charmacy Pharmaceutical Co., Ltd.
Yao Chuanglong
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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 People's Republic of China)

(Stock code: 2289)

20 January 2023

To the Independent Shareholders

Dear Sir or Madam,

UNCONDITIONAL MANDATORY CASH OFFER BY GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED FOR AND ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES IN CHARMACY PHARMACEUTICAL CO., LTD. (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

We refer to the Composite Document dated 20 January 2023 jointly issued by the Company, Jiangzhong Yishang and the Offeror, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter have the same meanings as defined in the Composite Document.

We have been appointed by the Board to constitute the Independent Board Committee to consider the terms of the Offer and to advise you (i.e. the Independent Shareholders) as to whether or not, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and to make recommendation in respect of the acceptance of the Offer.

Merdeka has been appointed as the Independent Financial Adviser with our approval to make recommendation to us in respect of the Offer and, in particular, whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and to make recommendation in respect of the acceptance of the Offer. Details of its advice and recommendation, together with the principal factors and reasons which it has considered before arriving at such recommendation, are set out in the "Letter from the Independent Financial Adviser" contained in the Composite Document.

We also wish to draw your attention to the "Letter from Guotai Junan Capital" contained in the Composite Document which sets out, among other things, information about the Offer, and the "Letter from the Board" contained in the Composite Document and the additional information set out in the Composite Document, including the appendices to the Composite Document and the accompanying Form of Acceptance in respect of the terms of the Offer and the acceptance and settlement procedures for the Offer.

RECOMMENDATION

Taking into account the terms of the Offer and the Independent Financial Adviser's advice and recommendations, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to accept the Offer. Independent Shareholders are recommended to read the full text of the "Letter from the Independent Financial Adviser" set out in the Composite Document.

However, Independent Shareholders who wish to realise all or part of their holdings in the Shares should closely monitor the market price and liquidity of the Shares during the period of the Offer. Should the market price of

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

the Shares exceed the Offer Price during the period of the Offer, and the sale proceeds (net of transaction costs) exceed the net proceeds receivable under the Offer, the Independent Shareholders may wish to consider selling their Shares in the market instead of accepting the Offer.

In any case, the Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders should consult their own professional advisers for advice. Furthermore, the Independent Shareholders who wish to accept the Offer are recommended to read carefully the procedures for accepting the Offer as detailed in the Composite Document and the accompanying Form of Acceptance.

Yours faithfully,
For and on behalf of the

Independent Board Committee of Charmacy Pharmaceutical Co., Ltd.

Mr. Li Weisheng
Non-executive Director

Mr. Wan Chi Wai Anthony
Independent non-executive Director

Mr. Zhou Tao
Independent non-executive Director

Mr. Guan Jian (also known as Guan Suzhe)
Independent non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from the Independent Financial Adviser setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Offer, which has been prepared for the purpose of inclusion in this Composite Document.



Room 1108-1110, 11/F.
Wing On Centre
111 Connaught Road Central
Hong Kong

20 January 2023

*To: The Independent Board Committee and the Independent Shareholders of
Charmacy Pharmaceutical Co., Ltd.*

Dear Sirs/Madams,

**UNCONDITIONAL MANDATORY CASH OFFER BY
GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED
FOR AND ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED
SHARES IN CHARMACY PHARMACEUTICAL CO., LTD. (OTHER THAN THOSE
ALREADY OWNED OR AGREED TO BE ACQUIRED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee in relation to the Offer, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the Composite Document dated 20 January 2023 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

As noted from the Board Letter, on 13 September 2022 (after trading hours), the Transferor (as transferor) and Jiangzhong Yishang (as transferee) entered into the Share Transfer Agreement, pursuant to which the Transferor conditionally agreed to sell and the Offeror conditionally agreed to purchase the Sale Shares, representing 9.00% of the entire issued share capital of the Company as at the Latest Practicable Date, at an aggregate consideration of HK\$70,858,800, equivalent to HK\$7.29 per Sale Share.

Pursuant to the Share Transfer Agreement, the Transferor has conditionally agreed to irrevocably entrust to the Offeror the Entrusted Voting Rights of the Entrusted Shares, representing approximately 3.70% of the entire issued share capital of the Company as at the Latest Practicable Date, except that the Transferor shall retain the right, as the holders or ultimate beneficial owners of the Entrusted Shares, to dividends on the Entrusted Shares and the right to dispose of the Entrusted Shares in accordance with applicable laws and regulations and the articles of association of the Company (provided that such disposal does not violate the terms of any agreement entered (or to be entered) into by the parties thereto) including but not limited to the Share Pledge Agreement which restricts the transfer of the 2,000,000 pledged Shares, 1,000,000 Shares of which form part of the 4,000,000 Entrusted Shares being the subject matter of the Entrusted Voting Rights arrangement).

Pursuant to the terms of the Share Transfer Agreement, Jiangzhong Yishang nominated its direct wholly-owned subsidiary, Jiangxi Pharmaceutical Investment Co., Ltd. (i.e. the Offeror), as the transferee of the Sale Shares. Completion took place on 17 January 2023, upon which the Offeror acquired the Sale Shares.

Immediately prior to Completion, Jiangzhong Yishang and the Offeror held 29,050,000 Shares (representing approximately 26.90% of the entire issued share capital of the Company) and the Transferor owns 44,250,000 Shares (including 9,720,000 Shares representing the Sale Shares and 4,000,000 Shares representing the Entrusted Shares), representing approximately 40.97% of the entire issued share capital of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 17 January 2023, Jiangzhong Yishang, the Offeror and the Company jointly announced the Completion. Immediately after Completion and as at the Latest Practicable Date, (i) Jiangzhong Yishang and the Offeror beneficially own 38,770,000 Shares, representing 35.90% of the entire issued share capital of the Company as at the Latest Practicable Date; (ii) Jiangzhong Yishang and the Offeror have acquired or controlled approximately 39.60% of the voting rights of the Company (comprising the voting rights of the Shares held by Jiangzhong Yishang, the Sale Shares held by the Offeror and the Entrusted Shares, which represent approximately 26.90%, 9.00% and 3.70% of the entire issued share capital of the Company respectively as at the Latest Practicable Date); and (iii) the Offeror's Concert Group (including the Transferor) beneficially owns an aggregate of 73,300,000 Shares, representing 67.87% of the entire issued share capital of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, there are 108,000,000 Shares in issue and the Company does not have any outstanding options, warrants or derivatives or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

Pursuant to Rule 26.1 of the Takeovers Code, upon Completion, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror's Concert Group).

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising the non-executive Director, Mr. Li Weisheng and all the independent non-executive Directors, namely Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe), has been established in accordance with Rules 2.1 and 2.8 of the Takeovers Code to advise and give a recommendation to the Independent Shareholders in respect of the Offer as to whether the terms of the Offer are fair and reasonable and as to the acceptance thereof. The remaining two non-executive Directors, namely Mr. Yan Jingbin and Ms. Fu Zheng, are Directors related to Jiangzhong Yishang and have direct interest in the Offer. Mr. Yan Jingbin has been working as the general manager of Jiangzhong Yishang since December 2018. Ms. Fu Zheng has served as a deputy general manager of Jiangzhong Yishang since June 2020. Therefore, they are not included as members of the Independent Board Committee.

We, Merdeka Corporate Finance Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee in this respect and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer pursuant to Rule 2.1 of the Takeovers Code. The appointment of Merdeka Corporate Finance Limited as the Independent Financial Adviser has been approved by the Independent Board Committee. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Board Committee as to (i) whether the Offer is fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Offer should be accepted.

We are independent from and not connected with the Company, the Offeror, the Transferor, any of their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, save for this appointment as the Independent Financial Adviser in respect of the Offer, there were no other engagements between Merdeka Corporate Finance Limited and the Group or the Offeror. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to advise the Independent Board Committee, no arrangement exists whereby we shall receive any other fees or benefits from the Offeror and the Company or any of their respective substantial shareholders or any person acting, or deemed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice on the Offer.

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained in or referred to in the Composite Document and the information and representations as provided to us by the Directors and the management of the Company (the "**Management**"). Our review procedures include, among others, review of (i) the annual reports of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Group for the years ended 31 December 2021 (the “2021 AR”) and 31 December 2020 (the “2020 AR”); (ii) the interim reports of the Group for the six months ended 30 June 2021 (the “2021 IR”) and 30 June 2022 (the “2022 IR”); (iii) the Composite Document; (iv) relevant announcements published by the Company; (v) the industry trends of the Group’s principal business; (vi) the price performance of the Shares; (vii) the trading liquidity of the Company; and (viii) comparable companies to the Company. We have assumed that all information and representations that have been provided by the Directors and the Management are true, complete and accurate in all material respects at the time when they were made and should there be any material changes thereto, Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Composite Document were reasonably made after due enquiries and careful considerations.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. The Independent Shareholders will be notified of any material changes to such information provided in the Composite Document and our opinion as soon as possible. We have also assumed that all statements of opinion made by the Directors and the Management in the Composite Document were reasonably made after due enquiries and careful consideration. The Directors jointly and severally accept full responsibility for the accuracy of information contained in the Composite Document (other than the information relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by the directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

While we have taken reasonable steps to satisfy the requirements under the Takeovers Code and the Listing Rules, we have not carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company or the Offeror as set out in the Composite Document, nor have we conducted an independent investigation into the business affairs or assets and liabilities of the Group or any of the other parties involved in the Offer.

We have not considered the tax and regulatory implications on the Independent Shareholders of acceptance or non-acceptance of the Offer since these depend on their individual circumstances. In particular, the Independent Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions, and if in any doubt, should consult their own professional adviser.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Offer, and except for its inclusion in the Composite Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee in relation to the Offer, we have considered the principal factors and reasons as set out below:

1. Background information of the Group

(a) *Principal business*

The Company is a joint-stock company established 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Historical financial information

Set out below is a summary of the audited consolidated financial results of the Group for the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 (“FY2019”, “FY2020” and “FY2021”, respectively) as extracted from the 2020 AR and the 2021 AR and the unaudited consolidated financial results of the Group for the six months ended 30 June 2021 (the “1H2021”) and 30 June 2022 (the “1H2022”) as extracted from the 2021 IR and the 2022 IR:

Table 1: Historical financial information of the Group

	For the year ended 31 December			For the six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	3,492,783	3,991,711	3,793,618	1,993,014	1,887,079
Operating profit	54,406	51,787	32,388	34,490	25,499
Total profit before taxation	55,045	54,742	32,981	34,530	25,848
Net profit after taxation	40,153	40,556	23,153	25,961	20,639
	As at 31 December			As at 30 June	
	2019	2020	2021	2022	
	RMB'000	RMB'000	RMB'000	RMB'000	
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	
Total assets	2,503,808	2,799,403	2,763,092	2,646,289	
Total liabilities	2,020,215	2,296,854	2,258,990	2,121,548	
Total equity attributable to owners of the Company	483,593	502,549	504,102	524,741	

(i) For the financial year ended 31 December 2020

For the FY2020, the Group recorded total revenue of approximately RMB3,991.7 million, representing an increase of approximately 14.3% as compared to approximately RMB3,492.8 million for the FY2019. As noted from the 2020 AR, such increase was mainly attributable to the increase of 2,614 customers and the use of relevant anti-virus drugs and Chinese medicines against COVID-19. The Group’s operating profit decreased from approximately RMB54.4 million for the FY2019 to approximately RMB51.8 million for the FY2020 representing a decrease of approximately 4.8%. The Group’s operating margin decreased by approximately 0.3 percentage points from approximately 1.6% for the FY2019 to approximately 1.3% for the FY2020. The decrease in operating profit despite the increase in revenue is primarily attributable to (i) an increase in selling expenses from approximately RMB77.4 million for the FY2019 to approximately RMB85.9 million in FY2020 related to business expansion; and (ii) an increase in impairment loss of credit from bad debts from approximately RMB4.2 million for the FY2019 to approximately RMB15.2 million for the FY2020.

For the FY2020, the Group recorded profit attributable to owners of the Company of approximately RMB40.6 million, representing a slight increase of approximately 1.0% as compared to approximately RMB40.2 million for the FY2019. As noted from the 2020 AR, such slight increase in profit attributable to owners of the Company despite the decrease in

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

operating profit was attributable to the increase in government grants from approximately RMB0.6 million to approximately RMB3.0 million.

The total assets of the Group increased by approximately RMB295.6 million from approximately RMB2,503.8 million as at 31 December 2019 to approximately RMB2,799.4 million as at 31 December 2020. The total assets of the Group as at 31 December 2020 mainly comprised of (i) monetary funds of approximately RMB590.3 million (2019: approximately RMB506.3 million); (ii) trade receivables of approximately RMB717.6 million (2019: approximately RMB712.3 million); (iii) prepayments of approximately RMB253.8 million (2019: approximately RMB212.7 million); (iv) inventories of approximately RMB585.0 million (2019: approximately RMB515.2 million); (v) fixed assets of approximately RMB354.6 million (2019: approximately RMB191.4 million); and (vi) intangible assets of approximately RMB152.2 million (2019: approximately RMB153.1 million).

The total liabilities of the Group increased by approximately RMB276.7 million from approximately RMB2,020.2 million as at 31 December 2019 to approximately RMB2,296.9 million as at 31 December 2020. The total liabilities of the Group as at 31 December 2020 mainly comprised of (i) short-term borrowings of approximately RMB535.9 million (2019: approximately RMB502.2 million); (ii) bills payables of approximately RMB938.6 million (2019: approximately RMB833.6 million); (iii) trade payables of approximately RMB569.8 million (2019: approximately RMB445.0 million); and (iv) long-term borrowings of approximately RMB118.5 million (2019: approximately RMB126.4 million).

The equity attributable to owners of the Company increased slightly by approximately RMB18.9 million from approximately RMB483.6 million as at 31 December 2019 to approximately RMB502.5 million as at 31 December 2020.

(ii) For the financial year ended 31 December 2021

For the FY2021, the Group recorded total revenue of approximately RMB3,793.6 million, representing a decrease of approximately 5.0% as compared to approximately RMB3,991.7 million for the FY2020. As noted from the 2021 AR, such decrease was mainly attributable to the Group adopting a relatively conservative marketing strategy and controlled supply to certain distributors and the repeated COVID-19 outbreaks resulting in the implementation of epidemic prevention and control measures that reduced customers and sales. The Group's operating profit decreased from approximately RMB51.8 million for the FY2020 to approximately RMB32.4 million for the FY2021 representing a decrease of approximately 37.5%. The Group's operating margin decreased by approximately 0.4 percentage points from approximately 1.3% for the FY2020 to approximately 0.9% for the FY2021. The decrease in operating profit and operating margin is primarily attributable to the decrease in revenue and the increase in overall operating costs (i.e. fluctuating transportation costs and increased personnel and market maintenance costs related to market development, etc.).

For the FY2021, the Group recorded profit attributable to owners of the Company of approximately RMB23.2 million, representing a decrease of approximately 42.9% as compared to approximately RMB40.6 million for the FY2020. As noted from the 2021 AR, such decrease in profit attributable to owners of the Company is due to the decrease in operating profit and a decrease in government grants from approximately RMB3.0 million for the FY2020 to approximately RMB0.7 million for the FY2021.

The total assets of the Group decreased by approximately RMB36.3 million from approximately RMB2,799.4 million as at 31 December 2020 to approximately RMB2,763.1 million as at 31 December 2021. The total assets of the Group as at 31 December 2021 mainly comprised of (i) monetary funds of approximately RMB630.2 million (2020: approximately RMB590.3 million); (ii) trade receivables of approximately RMB716.3 million (2020: approximately RMB717.6 million); (iii) prepayments of approximately RMB312.2 million (2020: approximately RMB253.8 million); (iv) inventories of approximately RMB509.2 million (2020: approximately RMB585.0 million); (v) fixed assets of approximately

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RMB334.9 million (2020: approximately RMB354.6 million); and (vi) intangible assets of approximately RMB143.0 million (2020: approximately RMB152.2 million).

The total liabilities of the Group decreased by approximately RMB37.9 million from approximately RMB2,296.9 million as at 31 December 2020 to approximately RMB2,259.0 million as at 31 December 2021. The total liabilities of the Group as at 31 December 2021 mainly comprised of (i) short-term borrowings of approximately RMB668.0 million (2020: approximately RMB535.9 million); (ii) bills payables of approximately RMB809.8 million (2020: approximately RMB938.6 million); (iii) trade payables of approximately RMB532.9 million (2020: approximately RMB569.8 million); and (iv) long-term borrowings of approximately RMB86.9 million (2020: approximately RMB118.5 million).

The equity attributable to owners of the Company increased slightly by approximately RMB1.6 million from approximately RMB502.5 million as at 31 December 2020 to approximately RMB504.1 million as at 31 December 2021.

(iii) For the six months ended 30 June 2022

For the 1H2022, the Group recorded total revenue of approximately RMB1,887.1 million, representing a decrease of approximately 5.3% as compared to approximately RMB1,993.0 million for the 1H2021. As noted from the 2022 IR, such decrease was mainly attributable to the repeated COVID-19 outbreaks resulting in the implementation of epidemic prevention and control measures that reduced customers and sales. The Group's operating profit decreased from approximately RMB34.5 million for the 1H2021 to approximately RMB25.5 million for the 1H2022 representing a decrease of approximately 26.1%. The Group's operating margin decreased by approximately 0.3 percentage points from approximately 1.7% for the 1H2021 to approximately 1.4% for the 1H2022. The decrease in operating profit and operating margin is primarily attributable to the decrease in revenue and operating profit.

For the 1H2022, the Group recorded profit attributable to owners of the Company of approximately RMB20.6 million, representing a decrease of approximately 20.8% as compared to approximately RMB26.0 million for the 1H2021. As noted from the 2022 IR, such decrease in profit attributable to owners of the Company is primarily attributable to the decrease in revenue and operating profit.

The total assets of the Group decreased by approximately RMB116.8 million from approximately RMB2,763.1 million as at 31 December 2021 to approximately RMB2,646.3 million as at 30 June 2022. The total assets of the Group as at 30 June 2022 mainly comprised of (i) monetary funds of approximately RMB443.6 million (31 December 2021: approximately RMB630.2 million); (ii) trade receivables of approximately RMB746.7 million (31 December 2021: approximately RMB716.3 million); (iii) prepayments of approximately RMB332.2 million (31 December 2021: approximately RMB312.2 million); (iv) inventories of approximately RMB558.0 million (31 December 2021: approximately RMB509.2 million); (v) fixed assets of approximately RMB324.2 million (31 December 2021: approximately RMB334.9 million); and (vi) intangible assets of approximately RMB139.8 million (31 December 2021: approximately RMB143.0 million).

The total liabilities of the Group decreased by approximately RMB137.5 million from approximately RMB2,259.0 million as at 31 December 2021 to approximately RMB2,121.5 million as at 30 June 2022. The total liabilities of the Group as at 30 June 2022 mainly comprised of (i) short-term borrowings of approximately RMB515.5 million (31 December 2021: approximately RMB668.0 million); (ii) bills payables of approximately RMB818.4 million (31 December 2021: approximately RMB809.8 million); (iii) trade payables of approximately RMB514.9 million (31 December 2021: approximately RMB532.9 million); and (iv) long-term borrowings of approximately RMB71.1 million (31 December 2021: approximately RMB86.9 million).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The equity attributable to owners of the Company increased by approximately RMB20.6 million from approximately RMB504.1 million as at 31 December 2021 to approximately RMB524.7 million as at 30 June 2022.

(iv) *Subsequent to 30 June 2022*

On 20 December 2022, the Company issued the positive profit alert announcement (the “**Profit Alert Announcement**”) stating that the Group, based on the preliminary review of the unaudited consolidated management accounts of the Group for the 11 months ended 30 November 2022, and other information currently available to the management of the Company, the Group expects to record an unaudited net profit attributable to shareholders of the parent company for the 11 months ended 30 November 2022 of approximately RMB32 million (the “**Profit Alert Statement**”), which represents a significant increase as compared with: (i) the audited net profit attributable to shareholders of the parent company for the year ended 31 December 2021 of approximately RMB23 million; and (ii) the unaudited net profit attributable to shareholders of the parent company for the six months ended 30 June 2022 of approximately RMB21 million. The increase in net profit was mainly attributed to: (i) an increase in revenue from low bases for the year ended 31 December 2021 and for the six months ended 30 June 2022 which were due to the decrease in customer flow and sales at retail pharmacies in Guangdong Province under the COVID-19 pandemic restrictive measures; and (ii) the effective expansion of the third party pharmaceutical logistics business during the 11 months ended 30 November 2022.

On 3 January 2023, the Company issued a clarification announcement (the “**Clarification Announcement**”) in relation to a land resumption agreement (the “**Land Resumption Agreement**”) as set out in an announcement published by the Company on 11 October 2022 (the “**Land Resumption Announcement**”). As disclosed in the Clarification Announcement, the Company expects to record a gain before tax of approximately RMB67.12 million under the land Resumption Agreement (the “**Expected Gain Statement**”). As disclosed in the Land Resumption Announcement, such gain is estimated based on the compensation amount of RMB160 million less the unaudited net book value of the resumed land and construction as at 30 September 2022 of approximately RMB92.87 million, and other related expenses. The actual gain under the Land Resumption Agreement will depend on the net book value of the resumed land and construction attributable to the Group as at the date of completion of the Land Resumption and the actual costs and expenses to be incurred in connection with the Land Resumption.

Each of the abovementioned Profit Alert Statement and Expected Gain Statement constitutes as a “profit forecast” under Rule 10 of the Takeovers Code and is required to be reported on in accordance with Rule 10.4 of the Takeovers Code. Please refer to Appendices III and IV to the Composite Document for the reports on the Profit Alert Statement and Expected Gain Statement issued by us and ShineWing respectively.

2. Background and intention of the Offeror

Background of the Offeror

As stated in the section headed “INFORMATION ON THE OFFEROR” in the Letter from Guotai Junan Capital, the Offeror is a limited liability company incorporated in Hong Kong, and is a direct wholly-owned subsidiary of Jiangzhong Yishang. The Offeror is primarily engaged in investment holding. As at the Latest Practicable Date, the sole director of the Offeror is Mr. Yan Jingbin.

Jiangzhong Yishang is a company established 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) 20.50% 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 Jiangxi SASAC; (ii) 20.50% 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

China Resources Pharmaceutical Group Limited, whose shares are listed on the main board of the Stock Exchange (Stock Code: 3320.hk); (iii) 16.80% by Zhangshu Xinghao Enterprise Consulting Service Center (Limited Partnership)* (樟樹市興浩企業諮詢服務中心 (有限合夥)); (iv) 10.20% by Nanchang Zhonghe Medical Management Center (Limited Partnership)* (南昌市衆合醫藥管理中心 (有限合夥)); (v) 9.80% by Nanchang Zhongcheng Pharmaceutical Management Center (Limited Partnership)* (南昌市衆誠醫藥管理中心 (有限合夥)); (vi) 4.50% by Qingshen Chunhui Agricultural Development Co., Ltd.* (青神春暉農業發展有限公司); (vii) 4.00% by Shanghai Yingyin Enterprise Management Partnership (Limited Partnership)* (上海瀛胤企業管理合夥企業 (有限合夥)); (viii) 3.70% by Baoding Zeshun Transportation Co., Ltd.* (保定澤順運輸有限公司); (ix) 3.60% by Zhangshu Xingzhi Enterprise Consulting Service Center (Limited Partnership)* (樟樹市興志企業諮詢服務中心 (有限合夥)); (x) 3.00% by Dalian Kangrong Management Consulting Partnership (Limited Partnership)* (大連康融管理諮詢合夥企業 (有限合夥)); (xi) 2.00% by Shandong Changzhi Medicine Co., Ltd.* (山東長智醫藥有限責任公司); (xii) 1.40% by Tangshan Yatai Enterprise Management Consulting Partnership (Limited Partnership)* (唐山雅泰企業管理諮詢合夥企業 (有限合夥)); and (xiii) 1.2% by Hainan Hongfu Investment Partnership (Limited Partnership)* (海南洪福投資合夥企業 (有限合夥)). As at the Latest Practicable Date, save and except Jiangxi State-Owned Capital Operation Holdings Group Co. Ltd and China Resources Jiangzhong Pharmaceutical Group Co., Ltd., none of the shareholders individually controlled more than 20% shareholding of Jiangzhong Yishang.

As at the Latest Practicable Date, the directors of Jiangzhong Yishang are Mr. Liu Weiquan, Mr. Yan Jingbin, Mr. Wu Xiaohong, Mr. Huang Xingzhi, Mr. Chen Yong, Mr. Lin Xingyao, Ms. Luo Yi, Mr. Cheng Wang and Mr. Xu Zhengqing.

Intention of the Offeror

As stated in the section headed “FURTHER INTENTIONS OF THE OFFEROR REGARDING THE GROUP” in the Letter from Guotai Junan Capital, the Offeror intends to continue the business of the Group and maintain the employment of the operational and administrative employees of the Group (except for the proposed changes to the members of the Board as detailed in the sub-paragraph headed “PROPOSED CHANGE OF THE BOARD AND SUPERVISORY COMMITTEE COMPOSITION” in the Letter from Guotai Junan Capital).

As at the Latest Practicable Date, the Offeror has no intention or plans for any acquisition or disposal of assets and/or business of the Group. However, the Offeror will, following completion of the Offer, conduct a detailed review of the operations of the Group and formulate feasible business strategies with a view to developing a sustainable corporate strategy to broaden its income stream, which may include rebalancing the resources of the Group should appropriate opportunities arise.

As at the Latest Practicable Date, the Board is made up of three executive Directors, three non-executive Directors and three independent non-executive Directors. Pursuant to the Share Transfer Agreement and subject to the Takeovers Code, within 60 days after Completion, the Transferor and the Offeror shall endeavour to cause (i) three and two persons as respectively nominated by the Offeror and the Transferor to be appointed as Directors; (ii) a Director as nominated by the Offeror to be appointed as the chairman of the Board; (iii) a supervisor of the Company as nominated by the Offeror to be appointed as the chairman of the supervisory committee of the Company; and (iv) a person as nominated by the Offeror to be appointed as the financial responsible person. As at the Latest Practicable Date, such aforementioned persons to be nominated have not yet been confirmed by the Offeror.

The Offeror intends to nominate new Directors to the Board in compliance with the Takeovers Code, the Listing Rules or other applicable regulations. Further announcement(s) will be made upon any changes to the composition to the Board as and when appropriate pursuant to the Listing Rules and/or the Takeovers Code.

As disclosed above, the Jiangzhong Group is principally engaged in a similar business to the Group, being the wholesale of medicines. One of the directors of the Offeror is also a non-executive Director of the Company. The Offeror is also a state-owned enterprise. Nevertheless, we consider that the operations of the business of the Group may be affected during the transitional period despite the extensive

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

experience, similar principal business and network of the Offeror as the new Board would need time to review and understand the Group's operations before developing a sustainable business plan or strategy for the Group and the employees would also have to adapt to the leadership and management of the new Board (the "Transitional Period"). We are of the view that, any effects during the Transitional Period, which may or may not happen, are not expected to be material to the business of the Group as the Group has several major long-term clients and the Transferor will remain as key personnel overseeing the operations of the Group. Despite that, Shareholders are still subject to the risk of Share price fluctuation given that the Share price is associated with the business performance and strategy of the Group, as well as the background and experience of the potential new Directors.

3. Future prospects and outlook of the Group

As disclosed in the 2021 AR, 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.

Since the outbreak of COVID-19 first begin in first half of 2020, the PRC government has enacted various stringent policies involving city wide quarantines that resulted in extended interruptions to industry, logistics and economic activity. On 7 December 2022, the PRC government issued new guidelines for managing and monitoring COVID-19, signalling a relaxation of various quarantine measures under their initial zero-COVID policy. On 28 December 2022, the PRC government announced the removal of quarantine requirements for travellers from 8 January 2023 onwards. While the PRC has significantly reduced its COVID-19 mitigation policies, the PRC started recording a spike in COVID-19 infections in December which leads to uncertainty on whether various relaxed quarantine measures will be reinstated locally or nationally. As such relaxations of COVID-19 related policies were only enacted recently and abruptly, the effects of such changes on the PRC's economy, the pharmaceuticals industry and the Group's principal business are difficult to determine.

The PRC government has also been actively introducing and implementing new policies and regulation for manufacturing, distribution and insurance in relation to the pharmaceuticals industry. The introduction of such new policies and regulation has significant effects on the industry, resulting in the need for change in existing business models that have resulted in the elimination of smaller companies that are unable to adapt and the centralisation of larger companies. There is expected to be a transitional period as the pharmaceuticals industry adapts to any changes in the operating environment. The centralisation of larger companies may reduce the overall number of suppliers and retailers and affect existing suppliers and customers of the Group and sudden changes in pricing policies of pharmaceuticals may affect the Group's profit margins from its re-distribution of said pharmaceuticals.

Making reference to the Profit Alert Announcement, the Company expects to record an unaudited net profit attributable to shareholders of the parent company for the 11 months ended 30 November 2022 of approximately RMB32 million, which represents a significant increase as compared with the audited net profit attributable to shareholders of the parent company for the year ended 31 December 2021 of approximately RMB23 million. Such increase shows potential for the Group's recovery from the effects of the COVID-19 epidemic.

However, as the Group's recovery in net profit is currently for a single year and after a significant decrease in net profit for the prior year, such increase can't be used as indication of the Group's potential future growth.

Making reference to the Land Resumption Announcement, the Company expects to record a gain before tax of approximately RMB67.12 million under the Land Resumption Agreement. Such gain is resultant of a one-off transaction and the disposal of the resumed land and construction is not expected to have any material effect on the Group's daily operations.

Having considered that the uncertainties associated with the financial performance and prospects of the Group as discussed above, including but not limited to (i) the introduction of new policies in the PRC pharmaceuticals industry; (ii) the COVID-19 epidemic and the resultant uncertainties in the PRC economy from related quarantine measures; and (iii) the uncertain growth potential of the Group's principal

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

business segments due to the Group's fluctuating financial results for the FY2020, FY2021 and the eleven months ended 30 November 2022 as a result of the COVID-19 epidemic, we are of the view that the Group may continue to operate in a challenging and unpredictable environment in coming years and we remain cautious about the outlook and prospects of the Group.

4. Industry overview and outlook

The pharmaceuticals industry in the PRC is highly competitive. Based on an article published by UBS on 31 January 2022 titled "*A new chapter for China healthcare in the Year of the Tiger*" (source: <https://www.ubs.com/hk/en/assetmanagement/insights/thematic-viewpoints/apac-and-emerging/articles/china-healthcare-year-tiger.html>), there were over 5,000 pharmaceuticals firms and the top four pharmaceutical manufacturers in the PRC collectively only hold approximately 8% market share as compared to the top four pharmaceutical manufacturers in the United States and Japan holding approximately 25% and 36% market share. A highly competitive market usually results in unstable pricing and supply which can affect profitability. As the Group sources its products from numerous pharmaceutical manufacturers (666 pharmaceutical manufacturers for the year ended 31 December 2021 as disclosed in the 2021 AR) in the PRC, instability in the industry that affects manufacturers may also result in instability of supply and pricing for the Group.

The PRC government continues to further expand its "*Pilot Program of the Centralized Procurement and Use of Drugs*"* that was first implemented on 1 January 2019 as disclosed in a notice titled "國務院辦公廳關於印發國家組織藥品集中採購和使用試點方案的通知" issued by the General Office of the State Council on 17 January 2019, buying drugs that are high in demand in bulk and at lower costs to reduce overall medical expenditures in the PRC. Such program has been shown to reduce prices of pharmaceuticals across the industry overall. The pilot program started by only covering 11 major cities but has expanded to cover 25 of the PRC's 31 provinces including Guangzhou where the Group's business is principally based. While this program increases the stability of pharmaceuticals pricing and supply and demand for consumers, it is expected to reduce the overall profitability of companies participating in the program and the industry as a whole as the goal of the program is to reduce prices of locally produced pharmaceuticals in the PRC. Increased competition and lower pricing is likely to reduce profit margins.

There is still a lot of uncertainty in the PRC's pharmaceuticals industry due to the high competitiveness of the market and the continual introduction of new governmental policies according to the "*14th Five-year Plan for the Development of the Pharmaceuticals Industry*" issued on 30 January 2022. With the introduction of any new regulations, there is expected to be a transitional period for pharmaceutical manufacturers and distributors which can affect the industry's profitability. Increased regulation in regards to the manufacturing, storage, distribution and sale of pharmaceuticals may all have effects on the Group's principal business of pharmaceutical distribution, i.e. increased quality assurance and governance standards in the manufacturing and distribution process and stricter controls on retail sales and pricing. Increased regulation may increase costs related to meeting any new regulatory requirements and regulation relating to sales and pricing may affect overall pharmaceutical sales.

5. Principal terms of the Offer

Guotai Junan Securities is making the Offer on behalf of the Offeror to acquire all the Offer Shares on the terms as set out in the Composite Document issued in accordance with the Takeovers Code, on the following basis:

For each Offer Share.HK\$7.29 in cash

The Offer Price of HK\$7.29 per Offer Share is equal to the consideration of HK\$7.29 per Sale Share under the Share Transfer Agreement. The Offer Price will not be affected by the post-Completion adjustment of consideration, if any, as stipulated in the section headed "The Share Transfer Agreement — Adjustment of Consideration" of the Joint Announcement.

The Shares acquired under the Offer shall be fully paid and free from all Encumbrances together with all rights attaching to them on or after the date on which the Offer is made (i.e. the date of this

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Composite Document), including the right to receive in full all dividends or other distributions, if any, declared, made or paid on or after the date on which the Offer is made.

The Company confirms that as at the Latest Practicable Date, (i) it has not declared any dividend which remains unpaid, (ii) it does not intend to declare any dividend the record date of which will fall on or after the date of this Composite Document, and (iii) it does not intend to make, declare or pay any future dividend or make other distributions before the closing of the Offer.

The Offer Price

The Offer Price of HK\$7.29 per Offer Share represents:

- (i) a premium of approximately 3.99% over the closing price of HK\$7.01 per Share on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 1.49% to the closing price of HK\$7.40 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 1.75% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day of HK\$7.42 per Share;
- (iv) a discount of approximately 2.67% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$7.49 per Share;
- (v) a discount of approximately 1.75% on the average closing price of approximately HK\$7.42 per Share as quoted on the Stock Exchange for the 90 consecutive trading days prior to and including the Last Trading Day;
- (vi) a premium of approximately 8.81% over the average closing price of approximately HK\$6.70 per Share as quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to and including the Last Trading Day;
- (vii) a premium of approximately 37.03% over the audited consolidated net asset value of the Group of approximately HK\$5.32 per Share as at 31 December 2021 based on 108,000,000 Shares in issue as at the date of this joint announcement; and
- (viii) a premium of approximately 31.83% over the unaudited consolidated net asset value of the Group of approximately HK\$5.53 per Share as at 30 June 2022 based on 108,000,000 Shares in issue as at the date of this joint announcement.

5.1 Historical performance of the Shares

Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 14 September 2021, being the twelve-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the “**Review Period**”):

Share price performance during the Review Period

Share price performance during the Review Period



Source: www.hkex.com.hk

Note: The trading of the Shares on the Stock Exchange was suspended at 9:00 a.m. on 14 September 2022 pending the release of the Joint Announcement. Trading of the Shares on the Stock Exchange was resumed at 9:00 a.m. on 29 September 2022.

We have reviewed the movements in the closing price of the Shares for the Review Period. We consider that the length of the Review Period to be reasonably long enough to illustrate the relationship between the historical trend of the closing price of the Shares and the Offer Price.

The lowest and highest closing price of the Shares during the Review Period were HK\$5.55 per Share recorded on 24 January 2022 and HK\$8.20 per Share recorded on 30 June 2022, as quoted on the Stock Exchange. The average daily closing price of the Shares during the Review Period is approximately HK\$6.75 per Share. The Offer Price of HK\$7.29 per Share represents (i) a premium of approximately 31.35% over the lowest closing price of HK\$5.55 per Share; (ii) a discount of approximately 11.10% to the highest closing price of HK\$8.20 per Share; and (iii) a premium of approximately 8.00% over the average daily closing price of approximately HK\$6.75 per Share during the Review Period.

Pre-Announcement Period

During the period under review from 14 September 2021 to 13 September 2022 (being the Last Trading Day) (the “**Pre-Announcement Period**”), the Share price demonstrated an overall upward trend. The lowest and highest closing price of the Shares during this period were HK\$5.55 per Share recorded on 24 January 2022 and HK\$8.20 per Share recorded on 30 June 2022 respectively as quoted on the Stock Exchange. The Offer Price of HK\$7.29 per Share represents (i) a premium of approximately 31.35% over the lowest closing price of HK\$5.55 per Share during the Pre-Announcement period; (ii) a discount of approximately 11.10% to the highest closing price of HK\$8.20 per Share during the Pre-Announcement period; and (iii) a premium of approximately 9.98% over the average daily closing price of approximately HK\$6.63 per Share during the Pre-Announcement Period.

From October 2021 to January 2022, the Shares experienced a steady decline from a peak of HK\$7.0 in October 2021 to a low of HK\$5.55 in January 2022. The aforementioned decline occurred shortly after the publication of the Company’s 2021 IR in September 2021 which disclosed the Group’s decline in profitability and the Group’s overall conservative strategy.

The Shares experienced a significant upward spike in February 2022, from a low of HK\$5.60 per Share to a high of HK\$7.88 per Share and then declined back down to a low of HK\$5.90 in March 2022. Such spike occurred shortly after the Company published an inside information announcement in relation to the Company converting all of its domestic shares into H shares of the Company and a voluntary

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

announcement published by the Company dated 6 January 2022 in relation to the transfer of an aggregate of 29,050,000 Shares to the Jiangzhong Group.

After the aforementioned spike in the Shares, the Shares then experienced a steady upward trend from March 2022 until June 2022, from a low of HK\$5.90 in March 2022 to a high of HK\$8.20 in June 2022. Such steady increase may be attributable to (i) the involvement of the Jiangzhong Group in the Company, having purchased the Shares and entering into a framework sales agreement and framework purchases agreement as detailed in the announcement and circular of the Company dated 11 April 2022 and 19 May 2022; (ii) the Company converting all of its domestic shares into H shares of the Company as disclosed in the announcements of the Company dated 15 February 2022, 15 June 2022 and 29 June 2022; and (iii) the company's publication of its annual results announcement for the year ended 31 December 2021 and the 2021 AR on 31 March 2022 and 28 April 2022 respectively.

The Shares experienced a decline from June 2022 until September 2022, from a high of HK\$8.20 in June 2022 to a low of HK\$7.40 in September 2022. This decline occurred shortly after the completion of the Company's conversion of its domestic shares into H Shares of the Company as disclosed in the announcement of the Company dated 29 June 2022.

Post-Announcement Period

At the request of the Company, trading in the Shares was suspended from 9:00 a.m. on 14 September 2022 pending the publication of the Joint Announcement. Following the resumption of trading of Shares at 9:00 a.m. on 29 September 2022 and up to the Latest Practicable Date (the "**Post-Announcement Period**"), the closing price of the Shares decreased by approximately 5.27% from HK\$7.40 per Share to HK\$7.01 per Share. During the Post-Announcement Period, the lowest and highest closing price of the Shares as quoted on the Stock Exchange were HK\$6.49 per Share on 11 November 2022 and 14 November 2022 and HK\$7.40 per Share on 29 September 2022, 30 September 2022, 3 October 2022 and 5 October 2022 respectively.

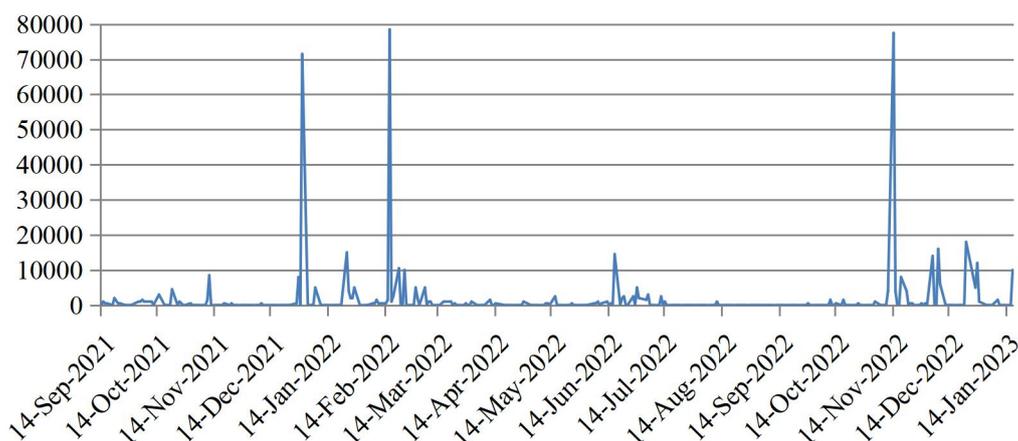
The Offer Price of HK\$7.29 per Share represents (i) a premium of approximately 12.33% over the lowest closing price of HK\$6.49 per Share during the Post-Announcement Period; (ii) a discount of approximately 1.49% to the highest closing price of HK\$7.40 per Share during the Post-Announcement Period; (iii) a premium of approximately 3.26% over the average closing price of HK\$7.06 per Share during the Post-Announcement Period; and (iv) a premium of approximately 3.99% over the closing price of HK\$7.01 per Share on the Latest Practicable Date.

5.2 Historical trading volume of the Shares

Set out below is the chart showing the daily trading volumes of the Shares on the Stock Exchange during the Review Period:

Daily trading volume of the Shares during the Review Period

Daily trading volume of the Shares during the Review Period



Source: www.hkex.com.hk

Note:

- 1) The trading of the Shares on the Stock Exchange was suspended at 9:00 a.m. on 14 September 2022 pending the release of the Joint Announcement. Trading of the Shares on the Stock Exchange was resumed at 9:00 a.m. on 29 September 2022.
- 2) The total trading volume of the Shares for the period from 1 January 2023 to and including the Latest Practicable Date includes the 9,720,000 Sale Shares transferred under the Acquisition upon Completion. The aforementioned Sale Shares have been excluded from analysis due to their extraordinary nature. Aside from the Sale Shares, 11,500 Shares were traded during the period from 1 January 2023 to and including the Latest Practicable Date.

Trading volume of the Shares during the Review Period

The following table sets out the historical monthly trading volumes of the Shares and the percentage of the number of Shares traded as compared to the total number of Shares in issue during the Review Period.

Month/Period (note 1,4,5)	Total trading volume for month/period (Shares)	Number of trading days during the month	Average daily trading volume for month/period (Shares)	Percentage of average daily trading volume to total number of the Shares in issue as at the Latest Practicable Date (note 2) (%)	Percentage of average daily trading volume to total number of the Shares held by public Shareholders as at the Latest Practicable Date (note 3) (%)
2021					
14 September to 30 September	55,000	12	416.67	0.0004%	0.0012%
October	15,500	18	861	0.0008%	0.0025%
November	11,500	22	523	0.0005%	0.0015%
December	80,500	22	3,659	0.0034%	0.0107%
2022					
January	33,000	21	1,571	0.0015%	0.0046%
February	108,000	17	6,353	0.0059%	0.0185%
March	18,500	23	804	0.0007%	0.0023%
April	44,000	18	222	0.0002%	0.0006%
May	4,400	20	200	0.0002%	0.0006%
June	32,500	21	1,548	0.0014%	0.0045%
July	88,000	20	400	0.0004%	0.0012%
August	1,000	23	43	0.0000%	0.0001%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1 September to 13 September	-	8	-	0.0000%	0.0000%
29 September to 30 September	500	2	250	0.0002%	0.0007%
October	100,500	20	5,025	0.0047%	0.0147%
November	100,000	22	4,545	0.0042%	0.0133%
December	72,500	20	3,625	0.0034%	0.0106%

2023					
1 January up to and including the Latest Practicab le Date (i.e. 17 January 2023)	9,731,500	11	1,045	0.0010%	0.0030%

Source: www.hkex.com.hk

Notes:

- 1) *The Review Period commenced on 14 September 2021.*
- 2) *Based on 108,000,000 Shares in issue during the Review Period.*
- 3) *Based on 34,300,000 Shares held by the public Shareholders during the Review Period.*
- 4) *The trading of the Shares on the Stock Exchange was suspended at 9:00 a.m. on 14 September 2022 pending the release of the Joint Announcement. Trading of the Shares on the Stock Exchange was resumed at 9:00 a.m. on 29 September 2022.*
- 5) *The total trading volume of the Shares for the period from 1 January 2023 to and including the Latest Practicable Date includes the 9,720,000 Sale Shares transferred under the Acquisition upon Completion. The aforementioned Sale Shares have been excluded from analysis due to their extraordinary nature. Aside from the Sale Shares, 11,500 Shares were traded during the period from 1 January 2023 to and including the Latest Practicable Date.*

As illustrated above, the average daily trading volume of the Shares as a percentage of the total number of the Shares in issue during the Review Period ranged from nil during the period from 1 September 2022 to 13 September 2022 to approximately 0.0059% in February 2022 with an average daily trading volume throughout the whole Review Period of approximately 0.0018% of the total number of issued Shares as at the Latest Practicable Date. If only Shares held by public Shareholders (the “**Free Float Shares**”), are considered in calculating the percentage of average daily trading volume of the Shares per month during the Review Period, the average trading volume of the Free Float Shares during the Review Period ranged from approximately from nil during the period from 1 September 2022 to 13 September 2022 to approximately 0.0185% in February 2022 with an average daily trading volume throughout the whole Review Period of approximately 0.0055% of the total number of Free Float Shares as at the Latest Practicable Date. Therefore, the trading volume of the Shares was thin during the Review Period and illiquid in the open market.

As shown in the above table, we noted that the average daily trading volume of the Shares in February 2022 was relatively higher than other months and periods during the Review Period. We have reviewed the announcements published by the Company on the Stock Exchange during and before February 2022 and we consider that such higher than average trading volume is likely primarily attributable to the publication of an inside information announcement in relation to the Company converting all of its domestic shares into H shares of the Company and a voluntary announcement published by the Company in relation to the transfer of an aggregate of 29,050,000 Shares to the Jiangzhong Group.

The trading of the Shares was thin during the Post-Announcement Period and for most of the Review Period i.e. the average daily trading volume during the Review Period was approximately 1,894 Shares, representing approximately 0.0018% of the total number of Shares in issue as at the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the thin trading volume of the Shares, the Independent Shareholders may find it difficult to dispose of a large volume of Shares in the open market in a short period of time without exerting downward pressure on the price of the Shares. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive through the disposal of their Shares in the open market and therefore, the Offer provides a viable alternative exit for the Independent Shareholders, particularly for those who hold a large volume of Shares, to realise their investments in the Company.

Having considered that (i) the overall price performance of the Shares during the Review Period; (ii) the Offer Price only represents a slight discount to the average of the closing prices as quoted on the Stock Exchange for last five, ten and thirty trading days up to and including the Last Trading Day; (iii) a premium of approximately 31.83% over the unaudited consolidated net asset value per Share as at 30 June 2022; (iv) a premium of approximately 3.99% over the closing price of HK\$7.01 per Share on the Stock Exchange on the Latest Practicable Date; (v) the uncertainty associated with the financial performance and prospects of the Group as discussed in the sections headed “Future prospects and outlook of the Group” and “Industry overview and outlook” above; (vi) there is no guarantee that the share price level during the Post-Announcement Period may occur during and/or after the Offer Period; and (vii) the trading volume of the Shares was generally thin for the majority of the Review Period, we are of the view that the Offer represents an opportunity for the Independent Shareholders, particularly for those who hold a relatively large volume of the Shares, to dispose of part or all of their Shares at the Offer Price if they so wish to. The Independent Shareholders who wish to realise their investments in the Group are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period.

5.3 Comparable Analysis

In order to further assess the fairness and reasonableness of the Offer Price, we have considered the price-to-revenue ratio (“P/S”) and the price-to-earnings ratio (“P/E”) which is commonly adopted trading multiple analyses for companies engaged in wholesale and trading business. While the price-to-book ratio is also a commonly adopted trading multiple analysis, we do not consider it particularly relevant to the Group as the Group has minimal fixed assets and its assets primarily consists of cash and cash equivalents and receivables.

Based on the Offer Price of HK\$7.29 per Share and the total number of issued Shares of 108,000,000 as at the Latest Practicable Date, the Company is valued at HK\$787,320,000. The P/S and P/E of the Company implied by the Offer Price is approximately 0.18 (the “**Implied P/S**”) and approximately 29.86 (the “**Implied P/E**”) respectively based on the audited consolidated revenue and net profit attributable to the Shareholders of the Group of approximately RMB3,793,618,000 (equivalent to approximately HK\$4,320,930,902 based on a conversion ratio of RMB1.00 to HK\$1.139) and approximately RMB23,153,000 (equivalent to approximately HK\$26,371,267 based on a conversion ratio of RMB1.00 to HK\$1.139) respectively for the FY2021.

We have attempted to identify the comparable companies which are (i) listed on the Stock Exchange; and (ii) principally engaged in same or similar majority business as the Group i.e. engaged in pharmaceuticals wholesale and distribution in the PRC (i.e. greater than 50% of total annual revenue). In order to ensure that the sample size is a meaningful comparison, we consider a categorisation based on market capitalisation is necessary and we have chosen comparables with a minimum market capitalisation of HK\$100 million as at the Last Trading Day to exclude companies with minimal market presence and a maximum of HK\$5,000 million to exclude comparables excessively larger than the Group while also ensuring there is a suitable sample size. In this regard, we have identified 12 comparable companies (the “**Comparable(s)**”) which are exhaustive based on our research on the website of the Stock Exchange and financial analytical software Factset in accordance with the above criteria. Details of our analysis are listed below:

P/S and P/E of the Comparables

Company name	Stock code	Market capitalisation ¹ (HK\$'000)	Revenue ¹ (HK\$'000)	Net profit ¹ (HK\$'000)	P/S ¹	P/E ¹
SciClone Pharmaceuticals (Holdings) Ltd.	6600	4,733,209	2,868,542	1,129,877	1.65	4.19

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

China Shineway Pharmaceutical Group Limited	2877	4,573,310	3,671,623	634,052	1.25	7.21
Ascentage Pharma Group International Co., Ltd. ^{2,3}	6855	4,301,671	31,789	N/A	135.32	N/A
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited	874	4,147,314	78,607,005	4,236,941	0.05	0.98
China Pioneer Pharma Holdings Ltd.	1345	3,131,043	1,634,260	162,459	1.92	19.27
YiChang HEC ChangJiang Pharmaceutical Co., Ltd. ²	1558	3,111,934	1,040,805	N/A	2.99	N/A
Consun Pharmaceutical Group Ltd.	1681	3,026,148	2,328,868	672,206	1.30	4.50
Golden Throat Holdings Group Co., Ltd.	6896	1,330,744	934,598	213,725	1.42	6.23
Shandong Xinhua Pharmaceutical Company Limited	719	803,400	7,471,929	396,996	0.11	2.02
Kingworld Medicines Group Ltd.	1110	295,688	965,173	34,533	0.31	8.56
New Ray Medicine International Holding Ltd. ²	6108	255,793	335,380	N/A	0.76	N/A
Jilin Province Huinan Changlong Bio Pharmacy Co. Ltd.	8049	182,850	803,514	163,199	0.23	1.12
				Highest²	2.99	19.27
				Average²	1.09	6.01
				Median²	1.25	4.50
				Lowest²	0.05	0.98
The Company ⁴	2289	787,320	4,320,931	26,371	0.18	29.86

Source: www.hkex.com.hk

Notes:

1. The P/S and P/E of the Comparables are calculated based on the market capitalisation of the respective Comparables as at the Last Trading Day divided by the revenue and net profit attributable to the owners of the company respectively of the Comparables as extracted from their respective latest published annual results as at the Last Trading Day and are based on a conversion ratio of RMB1.00:HK\$1.139.
2. Ascentage Pharma Group International Co., Ltd. (stock code: 6855), YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (stock code: 1558) and New Ray Medicine International Holding Ltd. (stock code: 6108) all recorded a net loss for their most recent financial year.
3. Ascentage Pharma Group International Co., Ltd. (stock code: 6855) has a significantly higher P/S value as compared to that of the other Comparables (i.e. 135.32 as compared to the next highest P/S value of the Comparables of only 2.99, hence we have excluded Ascentage Pharma Group International Co., Ltd. (stock code: 6855) from the overall analysis of the Comparables.
4. The Implied P/S and P/E of the Company are calculated based on the theoretical market capitalisation of the Company based on the Offer Price.

As illustrated in the table above, the P/S of the Comparables ranged from approximately 0.05 to approximately 2.99, with an average of approximately 1.09 and a median of approximately 1.25. The Implied P/S of approximately 0.18 is within range but is lower than the average and median P/S of the Comparables.

The P/E of the Comparables ranged from approximately 0.98 to approximately 19.27, with an average of approximately 6.01 and a median of approximately 4.50. The Implied P/E of approximately 29.86 is higher than the P/E of all the Comparables.

In regard to a P/S and P/E Ratio analysis of the Offer Price, having considered that the Implied P/S of 0.18 is within range and the Implied P/E of 29.86 is significantly higher than the P/E of all of the Comparables, we are of the view that the Offer Price is fair and reasonable to the Independent Shareholders.

6. Public float and maintaining the listing status of the Company

The Stock Exchange has stated that if, upon close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) that there are insufficient Shares in public hands to maintain an orderly market,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

it will consider exercising its discretion to suspend dealings in the Shares.

As disclosed in the Letter from Guotai Junan Capital, the Offeror intends the Company to remain listed on the Stock Exchange after the close of the Offer. The Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offer. The Directors and the proposed new director(s) by the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. The Offeror will take appropriate steps (including but not limited to placement of Shares) as soon as possible following the close of the Offer to ensure that a sufficient public float exists for the Shares.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons set out in this letter, in particular:

- (a) the political and economic uncertainties of the Group related to the COVID-19 epidemic and the introduction of new policies for the PRC pharmaceuticals industry as mentioned in the above sections headed “Future prospects and outlook of the Group” and “Industry overview and outlook”;
- (b) the unaudited net profit attributable to shareholders of the parent company for the 11 months ended 30 November 2022 of approximately RMB32 million which represents a significant increase as compared with the audited net profit attributable to shareholders of the parent company for the year ended 31 December 2021 of approximately RMB23 million as disclosed in the Profit Alert Announcement and the estimated gain before tax of approximately RMB67.12 million under the Land Resumption Agreement as disclosed in the Land Resumption Announcement and the Clarification Announcement;
- (c) the Offer Price of HK\$7.29 per Offer Share only represents a slight discount of approximately 1.49%, 1.75%, 2.67% and 1.75% to the average market price of the Shares for the Last Trading Day and for the last five, thirty and ninety trading days up to and including the Last Trading Day respectively and a premium of approximately 31.83% over the unaudited consolidated net asset value of the Company per Share as at 30 June 2022 and a premium of approximately 3.99% over the closing price of HK\$7.01 per Share on the Stock Exchange on the Latest Practicable Date;
- (d) the trading volume of the Shares was thin during the Review Period with an average daily trading volume throughout the whole Review Period of approximately 0.0055% of the total number of Free Float Shares as at the Latest Practicable Date and thus it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price; and accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market; and
- (e) the Implied P/S of 0.18 is within range of the Comparables (i.e. a minimum P/S of 0.05 to a maximum P/S of 2.99) and the Implied P/E of 29.86 is significantly higher than the Comparables (i.e. a minimum P/E of 0.98 to a maximum P/E of 19.27),

we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

The Independent Shareholders who wish to realise their investment in the Group are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the net proceeds from the sales of such Shares in the open market would exceed the net amount receivable under the Offer. In any event, the Independent Shareholders should note that there is no certainty that the current trading volume and/or current trading price level of the Shares will be sustainable during or after the Offer Period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Yours Faithfully,
For and on behalf of
Merdeka Corporate Finance Limited
Tina Hung Wallace So
Director Director

Ms. Tina Hung is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 25 years of experience in corporate finance.

Mr. Wallace So is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 10 years of experience in corporate finance.

1. PROCEDURES FOR ACCEPTANCE OF THE OFFER

- (i) To accept the Offer, you should complete and sign the accompanying Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offer.
- (ii) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Offer in respect of your Shares, you must send the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar, in any event no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.
- (iii) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your Shares, you must either:
 - (1) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar; or
 - (2) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar; or
 - (3) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC to accept the Offer on your behalf on or before the deadline set out by HKSCC. In order to meet the deadline set by HKSCC, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
 - (4) if your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System no later than the deadline set out by HKSCC.
- (iv) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an authority to the Offeror and/or Guotai Junan Securities or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Acceptance.
- (v) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Form of Acceptance

APPENDIX I FURTHER TERMS OF THE OFFER AND PROCEDURES OF ACCEPTANCE

and deliver it to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

- (vi) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar by no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with Note 1 to Rule 30.2 of the Takeovers Code), and the Registrar has recorded that the acceptance and any relevant documents required, under paragraph (g) below have been so received.
- (vii) Acceptance of the Offer may not be counted as valid unless the Form of Acceptance is duly completed and signed and is:
 - (1) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or
 - (2) from a registered Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another subparagraph under this paragraph (g)); or
 - (3) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

- (viii) No acknowledgement of receipt of any Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. SETTLEMENT OF THE OFFER

- (i) If you accept the Offer, settlement of the consideration, less seller's ad valorem stamp duty, will be made by cheque as soon as possible, but in any event within seven Business Days following the date of receipt by the Registrar of the duly completed Form of Acceptance together with all the valid requisite documents from the Independent Shareholders accepting the Offer in compliance with Note 1 of Rule 30.2 of the Takeovers Code. Each cheque will be despatched by ordinary post to the address specified on the relevant Independent Shareholder's Form of Acceptance at his/her/its own risk.
- (ii) No fractions of a cent will be payable and the amount of cash consideration payable to a Shareholder who accepts the Offer will be rounded up to the nearest cent.
- (iii) Settlement of the consideration to which any accepting Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer (save with respect to the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Independent Shareholder.

3. ACCEPTANCE PERIOD AND REVISIONS

- (i) The Offer is made on 20 January 2023, namely the date of despatch of this Composite Document, and are capable of acceptance on and from this date.
- (ii) Unless the Offer has previously been revised or extended with the consent of the Executive, all Form(s) of Acceptance must be received by 4:00 p.m. on the Closing Date in accordance with the instructions printed on the respective Forms of Acceptance and the Offer will be closed on the Closing Date.
- (iii) If the Offer is extended, the announcement of such extension will state the next closing date or a statement that the Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given to the Independent Shareholders before the Offer is closed. If, in the course of the Offer, the Offeror revises the terms of the Offer, all Independent Shareholders, whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms.
- (iv) If the Closing Date is extended, any references in this Composite Document and the Forms of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

4. ANNOUNCEMENTS

- (i) By 6:00 p.m. on 10 February 2023, being the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Offer has been revised, extended or closed.

The announcement will state the total number of Shares:

- (1) for which acceptances of the Offer have been received;
- (2) held, controlled or directed by the Offeror's Concert Group before the Offer Period; and
- (3) acquired or agreed to be acquired during the Offer Period by the Offeror and other members of the Offeror's Concert Group.

The announcement will also include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror's Concert Group has borrowed or lent, save for any borrowed securities which have been either on-lent or sold. The announcement will also specify the percentages of the issued share capital of the Company and the percentages of voting rights represented by these numbers.

- (ii) In computing the total number of Shares represented by acceptances, only valid acceptances that are complete and in good order and satisfy the acceptance conditions set out in paragraph 1 of this Appendix and which have been received by the Registrar or the Company (as the case may be) no later than 4:00 p.m. on 10 February 2023, being the Closing Date and the latest time and date for acceptance of the Offer, shall be included.
- (iii) As required under the Takeovers Code, all announcements in relation to the Offer will be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

5. NOMINEE REGISTRATION

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. For beneficial owners of Shares, whose investments are registered in the names of nominees, to accept the Offer, it is essential that they provide instructions of their intentions with regard to the Offer to their nominees.

6. RIGHT OF WITHDRAWAL

- (i) Acceptance of the Offer tendered by the Independent Shareholders or by their respective agent(s) on their behalf shall be irrevocable and cannot be withdrawn, except in the circumstances set out in subparagraph (ii) below.
- (ii) If the Offeror is unable to comply with the requirements set out in the paragraph headed “Announcements” in this Appendix above, the Executive may require, pursuant to Rule 19.2 of the Takeovers Code, that the Independent Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements of Rule 19 of the Takeovers Code can be met.

In such case, when the Independent Shareholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within ten days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Forms of Acceptance to the relevant Independent Shareholder(s).

Save as aforesaid, acceptances of the Offer shall be irrevocable and not capable of being withdrawn. By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror free from all Encumbrances and together with all rights accruing or attaching to them, including, without limitation, the right to receive all dividends and distributions which may be recommended, declared, made or paid, if any, at any time on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

7. OVERSEAS SHAREHOLDERS

The Offer is made available to all the Independent Shareholders, including the Overseas Shareholders. The availability of the Offer to any Overseas Shareholders may be affected by the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Shareholders should observe any applicable legal and regulatory requirements and, where necessary, consult their own professional advisers. It is the responsibilities of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due by such Overseas Shareholders in respect of such jurisdictions).

8. STAMP DUTY

The seller’s Hong Kong ad valorem stamp duty on acceptances of the Offer (or part thereof) at a rate of 0.13% of the consideration payable in respect of the relevant acceptances by the Shareholders, or if higher, the market value of the Shares subject to such acceptance, will be deducted from the amount payable to those relevant Shareholders who accept the Offer. The Offeror will arrange for payment of the seller’s ad valorem stamp duty on behalf of the relevant Shareholders who accept the Offer and pay the buyer’s Hong Kong ad valorem stamp duty in connection with the acceptances of the Offer and the transfers of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

9. TAX IMPLICATIONS

Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the members of the Offeror’s Concert Group, the Company, Guotai Junan Capital, Guotai Junan Securities and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

10. GENERAL

- (i) All communications, notices, Form(s) of Acceptance, share certificates, title document(s), transfer receipt(s) and/or any other document(s) of title and remittances to settle the consideration payable under the Offer to be delivered by or sent to or from the Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of Jiangzhong Yishang, the Offeror, the Company, Guotai Junan Capital, Guotai Junan Securities and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer, accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (ii) The provisions set out in the accompanying Form(s) of Acceptance form part of the terms of the Offer.
- (iii) The accidental omission to despatch this Composite Document and/or Form(s) of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.
- (iv) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (v) Due execution of the Form(s) of Acceptance will constitute an authority to Jiangzhong Yishang, the Offeror, Guotai Junan Securities or such person or persons as the Offeror may direct to complete and execute any document on behalf of the person or persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares in respect of which such person or persons has accepted the Offer.
- (vi) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to Jiangzhong Yishang, the Offeror, Guotai Junan Securities and the Company:
 - (1) that such Offer Shares acquired under the Offer are sold by the Shareholders free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights accruing or attaching thereto on the Closing Date or subsequently becoming attached to them, including, without limitation, in the case of the Shares, the rights to receive all future dividends and/or other distributions declared, paid or made, if any, on or after the Closing Date; and
 - (2) that if such Shareholder accepting the Offer is an Overseas Shareholder, he/she has observed the laws of all relevant territories, obtained all requisite governmental, exchange control or other consents, complied with all requisite formalities or legal requirements and paid any issue, transfer or other taxes or other required payments due from him/her in connection with such acceptance in any territory, that he/she has not taken or omitted to take any action which will or may result in the Jiangzhong Yishang, Offeror, the Company, Guotai Junan Securities or any of their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer acting in breach of the legal or regulatory requirements of any territory in connection with the Offer or his/her acceptance thereof, and is permitted under all applicable laws to accept the Offer and any revision thereof, and that such acceptance is valid and binding in accordance with all applicable laws.
- (vii) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares it has indicated in the Form of Acceptance is the aggregate number of Shares for which such nominee has received authorisations from the beneficial owners to accept the Offer on their behalf.
- (viii) Reference to the Offer in this Composite Document and in the Form(s) of Acceptance shall include any extension or revision thereof.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the financial information of the Group for each of the three financial years ended 31 December 2021 and the unaudited consolidated financial results of the Group for the six months ended 30 June 2021 and 2022, which is extracted from the audited consolidated financial statements of the Group as set forth in the annual report of the Company for the financial year ended 31 December 2020 (“**2020 Annual Report**”) and the annual report of the Company for the financial year ended 31 December 2021 (“**2021 Annual Report**”) and the unaudited consolidated financial statements of the Group as set forth in the interim reports of the Company for the six months ended 30 June 2022 (“**2022 Interim Report**”). The auditor’s reports issued by ShineWing in respect of the Group’s audited consolidated financial statements for each of the three financial years ended 31 December 2021 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

	For the year ended 31 December			For the six months ended 30 June	
	2019	2020	2021	2021	2022
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Total operating revenue	3,492,783	3,991,711	3,793,618	1,993,014	1,887,079
Total operating cost	(3,431,519)	(3,922,378)	(3,759,193)	(1,955,425)	(1,858,822)
Including:					
Operating Cost	(3,269,111)	(3,751,306)	(3,556,399)	(1,857,968)	(1,762,707)
Taxes and surcharges	(7,758)	(6,965)	(8,658)	(4,387)	(4,844)
Selling expenses	(77,398)	(85,916)	(103,328)	(52,285)	(53,809)
Management expenses	(46,506)	(45,759)	(48,523)	(18,989)	(18,402)
Finance costs	(30,746)	(32,432)	(42,285)	(21,796)	(19,060)
Operating profit	54,406	51,787	32,388	34,490	25,499
Total profit before taxation	55,045	54,742	32,981	34,530	25,848
Income tax expense	(14,892)	(14,186)	(9,828)	(8,569)	(5,209)
Net profit and total comprehensive income attributable to the Shareholders	40,153	40,556	23,153	25,961	20,639
Basic and diluted earnings per Share (RMB)	0.3718	0.3755	0.2144	0.2404	0.1911
Dividends	32,400	21,600	21,600	-	-
Dividends per Share (RMB)	0.3	0.2	0.2	-	-

Save as disclosed above, there were no items of income or expense which are material in respect of the financial statements of the Group for each of the three financial years ended 31 December 2021 and the unaudited consolidated financial results of the Group for the six months ended 30 June 2021 and 2022.

2. CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The Company is required to set out or refer to in this Composite Document the consolidated statements of profit or loss, the consolidated statements of financial position, the consolidated statements of cash flows, and any other primary statements as shown in the (i) audited consolidated financial statements of the Group for the year ended 31 December 2019, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2019 Financial Statements**”); (ii) audited consolidated financial statements of the Group for the year ended 31 December 2020, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2020 Financial Statements**”); (iii) audited consolidated financial statements of the Group for the year ended 31 December 2021, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2021 Financial Statements**”); (iv) unaudited consolidated financial statements of the Group for the six months ended 30 June 2022, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2022 Interim Financial Statements**”).

The 2019 Financial Statements are set out from pages 53 to 184 in the annual report of the Company for the financial year ended 31 December 2019 (the “**2019 Annual Report**”), which was published on 22 April 2020. The 2019 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<https://www.chmyy.com/>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0422/2020042201410.pdf>

The 2020 Financial Statements are set out from pages 45 to 135 in the 2020 Annual Report which was published on 27 April 2021. The 2020 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<https://www.chmyy.com/>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042701215.pdf>

The 2021 Financial Statements are set out from pages 106 to 260 in the 2021 Annual Report which was published on 28 April 2022. The 2021 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<https://www.chmyy.com/>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0428/2022042802014.pdf>

The 2022 Interim Financial Statements are set out from pages 39 to 173 in the 2022 Interim Report which was published on 23 September 2022. The 2022 Interim Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<https://www.chmyy.com/>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0923/2022092300693.pdf>

The 2019 Financial Statements, the 2020 Financial Statements, the 2021 Financial Statements and the 2022 Interim Financial Statements (but not any other part of the 2019 Annual Report, the 2020 Annual Report, the 2021 Annual Report and the 2022 Interim Report in which they respectively appear) are incorporated by reference into this Composite Document and form part of this Composite Document.

3. STATEMENT OF INDEBTEDNESS

At the end of business hours on 30 November 2022 (that is, the last practicable date for this statement of indebtedness before the publication of this Composite Document), the Group had the following liabilities:

- (1) the outstanding bank loans already used, totalling approximately RMB492.9 million and secured on (i) the properties, factory buildings and equipment held by the Group and with a book value of RMB57.1 million on 30 November 2022; (ii) the land use right held by the Group and with a book value of RMB80.1 million on 30 November 2022; and (iii) the Group's inventory with a book value of RMB350.0 million on 30 November 2022; and
- (2) lease liabilities, totalling approximately RMB13.0 million;

Except as mentioned above or disclosed in other parts of this document and the Group's intra-company liabilities and normal accounts payable in the ordinary course of business, the Group had no bank overdrafts or loans, or other similar debts, mortgages, pledges or guarantees or other material contingent liabilities at the end of business hours on 30 November 2022.

4. MATERIAL CHANGE

The Directors confirm that, save and except as discussed below, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2021, (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date:

- (i) The H share full circulation programme

On 15 February 2022, the Company submitted an application to the China Securities Regulatory Commission (the "CSRC") in respect of the conversion of all of its domestic shares into H shares of the Company. On 6 June 2022, the Company received formal approval from the CSRC the domestic shareholders of the Company are allowed to convert up to an aggregate of 80 million unlisted domestic shares of the Company into H shares of the Company and the listing thereof on the main board of the Stock Exchange. On 14 June 2022, the Listing Committee of the Stock Exchange granted approval for the listing of and permission to deal in 80,000,000 H shares of the Company (the "Converted H Shares"). On 29 June 2022, the share certificate for the Converted H shares was issued to China Securities Depository and Clearing (Hong Kong) Company Limited and deposited into the Central Clearing and Settlement System operated by the Hong Kong Securities Clearing Company Limited on 29 June 2022 and the listing of the Converted H Shares on the Stock Exchange commenced at 9:00 a.m. on 30 June 2022. For further details, please refer to the Company's announcements dated 15 February 2022, 6 June 2022, 15 June 2022 and 29 June 2022.

The conversion of all of the Company's domestic shares into H shares, increases the number of shares available in the market, which may lead to a more diverse shareholder base.

- (ii) Continuing connected transactions in relation to entering into a framework sales agreement and a framework purchases agreement

On 11 April 2022 (after trading hours), the Company and Jiangzhong Yishang entered into (i) a framework sales agreement dated 11 April 2022 for the sale of medicines, medical devices, healthcare products and food (the "Framework Sales Agreement") by the Group to Jiangzhong Yishang Group (as defined in the circular of the Company dated 19 May 2022), for which the Group acted as primary distributor, being a distributor which purchases products directly from pharmaceutical manufacturers or their pharmaceutical distributor companies (regardless of whether they have obtained an exclusive distribution right or not) ("Primary Distributor"); and (ii) a framework purchase agreement dated 11 April 2022 for the purchase of medicines, medical devices, healthcare products and food (the "Framework Purchases Agreement") by the Group from Jiangzhong Yishang Group, for which Jiangzhong Yishang Group acted as a Primary Distributor. On 6 June 2022, the entering into of the Framework Sales Agreement and the Framework Purchases Agreement by the Company was approved by the Shareholders at an extraordinary general meeting of the Company held on 6 June 2022. For

APPENDIX I FURTHER TERMS OF THE OFFER AND PROCEDURES OF ACCEPTANCE

further details, please refer to the Company's announcements dated 11 April 2022, 19 May 2022 and 6 June 2022 and the Company's circular dated 19 May 2022.

The Framework Sales Agreement and Framework Purchases Agreement allow for more substantial and direct cooperation between the Group and the Jiangzhong Yishang Group and help to streamline any future cooperation. This can help provide the Group with a stable supplier and customer in the long-term.

(iii) Unaudited consolidated financial information of the Group for the six months ended 30 June 2022

As disclosed in the interim report of the Company for the six months ended 30 June 2022, the Group recorded a consolidated net profit of approximately RMB20.6 million for the six months ended 30 June 2022 as compared to a consolidated net profit of approximately HK\$26.0 million for the six months ended 30 June 2021. The decrease in the Group's results was due to the combined effects of: (i) retail pharmacies' epidemic prevention and control measures (such as visitor flow and sales restrictions) affected the visitor flows and sales when the COVID-19 epidemic occurred repeatedly in Guangdong Province of the PRC in the first half of this year; (ii) increase in promotions and sales of various products reducing overall profit; and (iii) increased costs related to the expansion of the Group's logistics infrastructure and business. For further details, please refer to the Company's interim report published on 23 September 2022.

(iv) Land resumption

As disclosed in the announcement of the Company dated 11 October 2022 (the "**Land Resumption Announcement**"), the Company entered into a land resumption agreement with Foshan Chancheng District Land Reserve Center and Foshan Chancheng District Zumiao Sub-district Office, pursuant to which the Company agreed to surrender the land use right of the land situated at No. 65, Foshan Avenue, Chancheng District, Foshan, the PRC* (佛山市禪城區佛山大道北65號) with an aggregate site area of approximately 16,827.75 sq.m. (the "**Land**") and the construction of the Land to Foshan Chancheng District Land Reserve Center at a consideration by way of cash compensation of RMB160,000,000. As set out in the Land Resumption Announcement, the Group expected to record a gain before tax of approximately RMB67.12 million (which is estimated based on the compensation amount of RMB160,000,000, less the unaudited net book value of the Land as at 30 September 2022 of approximately RMB92.87 million, and other related expenses) ("**Gain Estimate Statement**"). For further details, please refer to the Company's announcements dated 11 October 2022 and 3 January 2023. In addition, please refer to Appendices III and IV to this Composite Document for the reports from Merdeka and ShineWing on the Gain Estimate Statement, respectively.

(v) Positive profit alert (the "**Positive Profit Alert Statement**")

As disclosed in the announcement of the Company dated 20 December 2022, based on the preliminary review of the unaudited consolidated management accounts of the Group for the 11 months ended 30 November 2022, and other information available to the management of the Company as at the date of the Announcement, the Group expected to record an unaudited net profit attributable to shareholders of the parent company for the 11 months ended 30 November 2022 of approximately RMB32 million, which represents a significant increase as compared with: (i) the audited net profit attributable to shareholders of the parent company for the year ended 31 December 2021 of approximately RMB23 million; and (ii) the unaudited net profit attributable to shareholders of the parent company for the six months ended 30 June 2022 of approximately RMB21 million. The increase in net profit was mainly attributed to: (i) an increase in revenue from low bases for the year ended 31 December 2021 and for the six months ended 30 June 2022 which were due to the decrease in customer flow and sales at retail pharmacies in Guangdong Province under the COVID-19 pandemic restrictive measures; and (ii) the effective expansion of the third party pharmaceutical logistics business during the 11 months ended 30 November 2022. Please refer to Appendices III and IV to this Composite Document for the reports from Merdeka and ShineWing on the Positive Profit Alert Statement, respectively.



Room 1108-1110, 11/F.
Wing On Centre
111 Connaught Road Central
Hong Kong

20 January 2023

The Board of Directors
Charmacy Pharmaceutical Co., Ltd.
No 235
Song Shan North Road,
Longhu District, Shantou city,
Guangdong Province,
PRC

Dear Sirs/Madams,

We refer to (i) the unaudited consolidated net profit attributable to equity holders of the Company for the eleven months ended 30 November 2022 (the “**Profit Estimate**”) disclosed in the Profit Alert Statement (as defined below) in the announcement dated 20 December 2022 (the “**Profit Alert Announcement**”) and issued by the Company; (ii) the estimated gain on disposal (the “**Gain Estimate**”) from a land resumption agreement disclosed in the Estimated Gain Statement (as defined below) in the announcements of the Company dated 11 October 2022 and 3 January 2023 (the “**Land Resumption Announcements**”); and (iii) the Composite Document of the Company dated 20 January 2023 in relation to the unconditional mandatory cash offer by Guotai Junan Securities on behalf of the Offeror to acquire all the issued Shares other than those already owned or agreed to be acquired by the Offeror’s Concert Group. Capitalised terms used in this letter shall have the same meanings as defined in the Profit Alert Announcement, the Land Resumption Announcements and the Composite Document unless otherwise stated.

We also refer to (i) the statement (the “**Profit Alert Statement**”) containing the Profit Estimate made by the Board in the Profit Alert Announcement that:

“based on the preliminary review of the unaudited consolidated management accounts of the Group for the 11 months ended 30 November 2022, and other information currently available to the management of the Company, the Group expects to record an unaudited net profit attributable to shareholders of the parent company for the 11 months ended 30 November 2022 of approximately RMB32 million, which represents a significant increase as compared with: (i) the audited net profit attributable to shareholders of the parent company for the year ended 31 December 2021 of approximately RMB23 million; and (ii) the unaudited net profit attributable to shareholders of the parent company for the six months ended 30 June 2022 of approximately RMB21 million. The increase in net profit was mainly attributed to: (i) an increase in revenue from low bases for the year ended 31 December 2021 and for the six months ended 30 June 2022 which were due to the decrease in customer flow and sales at retail pharmacies in Guangdong Province under the COVID-19 pandemic restrictive measures; and (ii) the effective expansion of the third party pharmaceutical logistics business during the 11 months ended 30 November 2022.”

And (ii) the statement (the “**Gain Estimate Statement**”) containing the Gain Estimate made by the Board in the Land Resumption Announcements that:

“It is estimated that there would be a gain before tax of approximately RMB67.12 million under the Land Resumption Agreement (which is estimated based on the compensation amount thereunder, less the unaudited net book value of the Resumed Land and Construction as at 30 September 2022 of approximately RMB92.87 million, and other related expenses).”

The Profit Estimate and the Gain Estimate are regarded as profit forecasts under the Takeovers Code and therefore, are required to be reported on pursuant to Rule 10 of the Takeovers Code.

In respect of the Profit Estimate, we have reviewed and discussed with you, the Directors, the bases upon which the Profit Estimate has been made including, but not limited to, the unaudited financial information of the Group for the eleven months ended 30 November 2022. In respect of the Gain Estimate, we have also reviewed and discussed with you, the bases upon which the Gain Estimate has been made including, but not limited to, the Land Resumption Agreement and the unaudited financial position of the Group as at 30 September 2022.

We have also considered, and based on your review of, the report dated 20 January 2023 addressed to the Board from ShineWing Certified Public Accountants (Special General Partnership), the auditors of the Company, the text of which is set out in the Appendix IV to the Composite Document, which states that, so far as the accounting policies and calculations are concerned, the Profit Estimate and the Gain Estimate have been properly compiled in accordance with the bases adopted by the Directors as set out in the Profit Alert Announcement and the Land Resumption Announcements and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the interim report of the Company for the six months ended 30 June 2022.

Based on the above, we are of the opinion that the Profit Estimate and Gain Estimate, for which the Directors are solely responsible for, has been prepared with due care and consideration. The work undertaken by us is for the sole purpose of reporting to the Directors under Rule 10 of the Takeovers Code and for no other purposes. We accept no responsibility to any other person in connection with such work.

Yours Faithfully,
For and on behalf of
Merdeka Corporate Finance Limited

Wallace So
Director



AUDITOR'S REPORT OF EARNINGS ESTIMATES

To the Board of Directors of Charmacy Pharmaceutical Co., Ltd.,

We have reviewed the estimated pre-tax income from land purchasing and storage (“**Pre-tax Income**”) set out on page II-4 of “Financial Information of the Group” in Appendix II of the composite document (the “**Composite Document**”) of Charmacy Pharmaceutical Co., Ltd. (“**Charmacy Pharmaceutical**”) dated 20 January 2023 and the unaudited net profit attributable to shareholders of the parent company for the 11 months ended 30 November 2022 (“**Net Profit**”; Net Profit and Pre-tax Income collectively called “**Earnings Estimates**”) set out on page II-4 of “Financial Information of the Group” in Appendix II of the Composite Document.

1. Directors’ Responsibility

The Pre-tax Income was calculated by the directors of Charmacy Pharmaceutical based on the unaudited net book value of land purchased and stored and above-ground structures as of 30 September 2022 and other related expenses; the Net Profit was prepared by the directors of Charmacy Pharmaceutical based on the unaudited consolidated management accounts for the 11 months ended 30 November 2022. These Earnings Estimates were already reviewed by the directors of Charmacy Pharmaceutical, and they are fully responsible for the Earnings Estimates.

2. Our Independence and Quality Control

We have complied with the requirement of independence and other ethical requirements stipulated in *China Code of Ethics for Certified Public Accountants* promulgated by the Chinese Institute of Certified Public Accountants. The relevant requirements are formulated based on the fundamental principles of honesty, objectiveness, professional competency, due prudence, confidentiality and professional conduct.

Our firm applies the *Quality Management Standard No. 5101 of Accounting Firms: Business Quality Management* issued by the Chinese Institute of Certified Public Accountants, and correspondingly maintains a comprehensive quality control system, including established policies and procedures on compliance with professional ethics, professional standards, and applicable laws and regulations.

3. Certified Public Accountants’ Responsibilities

Our responsibilities are to provide opinions on the relevant accounting policies and calculations in accordance with the required procedures, and to report our opinions to you solely for this letter but not for any other purposes. We shall not assume any responsibility towards any other persons for anything which was involved, arose from or related to our work.

We have conducted our work in accordance with the *Hong Kong Standard on Investment Circular Reporting Engagements 500: Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness* and the *Standard for Other Assurance Services of Chinese Certified Public Accountants No. 3111: Review of Estimated Financial Information*. The relevant standards require us to plan and perform our work to reasonably determine whether, in terms of accounting policies and calculations, the management of Charmacy Pharmaceutical has prepared the Earnings Estimates properly based on the basis and assumptions adopted by the directors, and whether the basis for presenting the Earnings Estimates have been made consistent with the accounting policies generally adopted by Charmacy Pharmaceutical in all material aspects. Our work is substantially less than in scope than an audit conducted in accordance with the Chinese Certified Public Accountants issued by the Chinese Institute of Certified Public Accountants. Accordingly, we do not express an audit opinion.

4. Review Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Earnings Estimates have been prepared properly based on the benchmarks and assumptions adopted by the directors, and the benchmarks for presenting the Earnings Estimates are consistent with the accounting policy contained in the interim report of Charmacy Pharmaceutical for the six months ended 30 June 2022 in all material aspects.

**ShineWing Certified Public Accountants
(Special General Partnership)**

Chinese Certified Public Accountant
Pan Chuanyun (Project Partner)
Chinese Certified Public Accountant
Zhuang Linbin

Beijing, PRC

20 January 2023

1. RESPONSIBILITY STATEMENT

The sole director of the Offeror and the directors of Jiangzhong Yishang jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than those relating to the Transferor, the Directors and the Group) and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any of the statements in this Composite Document misleading.

2. MARKET PRICES

The table below shows the closing prices per Share on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price per Share (HK\$)
31 March 2022	6.30
29 April 2022	6.50
30 May 2022	6.75
30 June 2022	8.20
29 July 2022	7.70
31 August 2022	7.45
13 September 2022 (being the Last Trading Day)	7.40
30 September 2022	7.40
27 October 2022	7.24
30 November 2022	7.15
30 December 2022	6.89
17 January 2023 (being the Latest Practicable Date)	7.01

During the Relevant Period:

- (i) the highest closing price of the Shares as quoted on the Stock Exchange was HK\$8.20 per Share on 30 June 2022; and
- (ii) the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$6.10 per Share on 28 March 2022, respectively.

3. INTERESTS IN THE SECURITIES OF THE COMPANY

- (a) As at the Latest Practicable Date:
 - (i) save for the 29,050,000 Shares held by Jiangzhong Yishang, the Sale Shares acquired by the Offeror immediately after the Completion and the 5,000,000 Shares pledged by the Transferor to the Jiangzhong Yishang, none of the Offeror, Jiangzhong Yishang, the sole director of the Offeror or the directors of Jiangzhong Yishang was interested in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares;
 - (ii) As at the Latest Practicable Date, save for the 29,050,000 Shares held by Jiangzhong Yishang, the Sale Shares acquired by the Offeror and the 34,530,000 Shares held by the Transferor immediately after the Completion, none of the members of the Offeror's Concert Group owned or controlled any Shares, warrants, options, derivatives or securities carrying conversion or subscription rights into Shares.
 - (iii) As at the Latest Practicable Date, save for the unconditional irrevocable undertakings provided by the Non-Accepting Shareholders not to accept the Offer, none of the members of the Offeror's Concert Group had received any irrevocable commitment to accept or reject the Offer.

- (b) None of the members of the Offeror's Concert Group had borrowed or lent any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares during the Relevant Period.

4. DEALINGS

Save for the acquisition of the Sale Shares and the Share Pledge Agreement, none of the members of the Offeror's Concert Group had dealt for value in any Shares, warrants, options, derivatives or securities carrying conversion or subscription rights into Shares during the Relevant Period.

5. OTHER ARRANGEMENTS IN RELATION TO THE OFFER

- (a) As at the Latest Practicable Date, no benefit (other than statutory compensation) was or would be given to any Director as compensation for his loss of office or otherwise in connection with the Offer.
- (b) As at the Latest Practicable Date, save for the Share Transfer Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) between any member of the Offeror's Concert Group on one hand and any Directors, recent Directors, Shareholders or recent Shareholders of the Company on the other hand, having any connection with or dependence upon the Offer.
- (c) As at the Latest Practicable Date, save for the Share Transfer Agreement, there was no agreement or arrangement to which any member of the Offeror's Concert Group was a party which relates to circumstances in which it might or might not invoke or seek to invoke a pre-condition or a condition to the Offer;
- (d) There was no agreement, arrangement or understanding that any securities of the Company, acquired in pursuant of the Offer would be transferred, charged or pledged to any of the persons.
- (e) Save for the unconditional irrevocable undertakings provided by the Non-Accepting Shareholders not to accept the Offer, the Share Transfer Agreement, the Board Level Irrevocable Undertaking and the Share Pledge Agreement, there is no arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of the Offeror or the Company and which might be material to the Offer;
- (f) Save for the consideration payable by the Offeror to the Transferor under the Share Transfer Agreement, none of the members of the Offeror's Concert Group, its nominees or representatives has paid or will pay any other consideration, compensation or benefit in whatever form to the Transferor, its representatives, nominees or parties acting in concert with any of them in connection with the Share Transfer Agreement or otherwise in connection with the Sale Shares;
- (g) There is no understanding, arrangement or agreement which constitutes a special deal (as defined under Rule 25 of the Takeovers Code) between (i) any Shareholder and (ii)(a) the Offeror's Concert Group, or (ii)(b) the Transferor and parties acting in concert with it (excluding Jiangzhong Yishang and the Offeror); and
- (h) There is no agreement, arrangement or understanding (including any compensation arrangement) which constitutes a special deal (as defined under Rule 25 of the Takeovers Code) existing between (i) the Offeror's Concert Group (excluding the Transferor); and (ii) the Transferor and the parties acting in concert with it (excluding Jiangzhong Yishang and the Offeror);

6. QUALIFICATIONS AND CONSENT OF EXPERT

The following is the qualifications of Guotai Junan Capital who has given opinions or advice which are contained or referred in this Composite Document:

Name	Qualification
Guotai Junan Capital	a corporation licensed under the SFO to engage in type 6 regulated activity (as defined under the SFO), the financial adviser to the Offeror in respect of the Offer

Guotai Junan Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of its letter and references to its name, in the form and context in which they respectively appear.

7. GENERAL

- (a) The registered office of the Offeror is situated at Room 2007, 20/F, Futura Plaza, No. 111-113, How Ming Street, Kwun Tong, Kowloon, Hong Kong.
- (b) The registered office of Jiangzhong Yishang is situated at Zile Road, Luoting Industrial Park, Wanli District, Nanchang City, Jiangxi Province, the PRC and the correspondence address of Jiangzhong Yishang is situated at Room 2007, 20/F, Futura Plaza, No. 111-113, How Ming Street, Kwun Tong, Kowloon, Hong Kong.
- (c) Mr. Yan is the sole director of the Offeror and his correspondence address is Jiangzhong Building, No. 788 Torch Avenue, High-tech Zone, Nanchang City, Jiangxi Province, the PRC.
- (d) The Offeror is a company incorporated under the laws of Hong Kong. It is a direct wholly-owned subsidiary of Jiangzhong Yishang.
- (e) The registered office of Guotai Junan Capital is at 27/F, Grand Millennium Plaza, 181 Queen's Road Central, Central, Hong Kong.
- (f) The registered office of Guotai Junan Securities is at 27/F, Grand Millennium Plaza, 181 Queen's Road Central, Central, Hong Kong.
- (g) The English text of this Composite Document and the Form(s) of Acceptance shall prevail over their respective Chinese texts in the case of inconsistency.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror's Concert Group (for this purpose, excluding the Transferor), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than that expressed by the directors of Jiangzhong Yishang and the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this Composite Document misleading.

2. SHARE CAPITAL OF THE COMPANY

As the Company is a joint stock company incorporated in the PRC with limited liability, the Company does not have an authorised share capital. As at the Latest Practicable Date, the registered and issued share capital of the Company was as follows:

Registered Share Capital:	RMB
108,000,000 Shares	108,000,000
Issued and Fully Paid-up Share Capital:	
108,000,000 Shares	108,000,000

The total number of issued Shares as at 31 December 2021 (being the date to which the latest audited financial statements of the Company were made up) was 108,000,000 Shares. Since 31 December 2021, no Shares had been issued by the Company.

All of the existing issued Shares currently in issue rank *pari passu* in all respects with each other, including all rights in respect of dividends, voting and interest in capital.

As at the Latest Practicable Date, the Company has no outstanding warrants, derivatives, share options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares and the Company has not entered into any agreement for the issue of any Shares or any warrants, derivatives, share options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares.

3. INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

(a) Interests and short positions of the Directors and chief executives in the Company and its associated corporations

As at the Latest Practicable Date, the interests of the Directors, supervisors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) recorded in the register maintained by the Company pursuant to Section 352 of the SFO; (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company; or (iv) disclosed in this Composite Document pursuant to the requirements of the Takeovers Code, were as follows:

Name of Director	Capacity/ Nature of interest	Number of Shares interested or held	Approximate shareholding percentage of the total issued share capital ⁽¹⁾
Mr. Yao Chuanglong	Beneficial owner and interests held jointly with another person	73,300,000 Shares (L) ⁽²⁾	67.87%

The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Shares.

Notes:

- (1) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at the Latest Practicable Date.
- (2) On 13 September 2022, Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi entered into the Board Level Irrevocable Undertaking in favour of Jiangzhong Yishang, pursuant to which Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi have irrevocably and unconditionally undertaken that they shall exercise their voting rights at the Board level strictly consistent with those of the Directors nominated or recommended by the Offeror in respect of the matters concerning the daily operations and the material decisions of the Company. The aggregate 73,300,000 Shares in which Mr. Yao Chuanglong is interested consist of (i) 34,530,000 Shares held by Mr. Yao Chuanglong; (ii) 9,720,000 Shares held by the Offeror, a direct wholly-owned subsidiary of Jiangzhong Yishang, in which Jiangzhong Yishang is deemed to be interested; and (iii) 29,050,000 Shares held by Jiangzhong Yishang. Mr. Yao Chuanglong is deemed to be interested in the interests of Shares held by Jiangzhong Yishang and the Offeror as a result of being a party acting in concert with Jiangzhong Yishang by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors and chief executives of the Company has any other interests or short positions in the shares, underlying shares or debentures of the Company, its members of the Group or any of its associated corporations (as defined in Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO) or which are required to be entered in the register referred to therein pursuant to Section 352 of the SFO or which are required pursuant to the Model Code.

(b) Disclosure of interests of substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities (other than any Directors, supervisors or chief executives of the Company) who had or were deemed to have an interest or a short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of shareholder	Capacity/ Nature of interest	Number of Shares interested or held	Approximate shareholding percentage of the total issued share capital ⁽¹⁾
Ms. You Zeyan	Interest of spouse	73,300,000 Shares (L) ⁽²⁾	67.87%
The Offeror	Beneficial owner	9,720,000 Shares (L)	9.00%
Jiangzhong Yishang	Beneficial owner, person having a security interest in shares and interests held jointly with another person	73,300,000 Shares (L) ⁽³⁾	67.87%
Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited	Beneficial owner	7,906,000 Shares (L) ⁽⁴⁾	7.32%
Guangzhou Baiyunshan Pharmaceutical Holdings	Interest in controlled	7,906,000 Shares	7.32%

Company Limited	corporation	(L) ⁽⁴⁾	
Guangzhou Pharmaceutical Holdings Limited	Interest in controlled corporation	7,906,000 Shares (L) ⁽⁴⁾	7.32%

Notes:

- (1) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at the Latest Practicable Date.
- (2) Ms. You Zeyan is the spouse of Mr. Yao Chuanglong, the Chairman and executive Director of the Company, and is deemed to be interested in these Shares by virtue of the SFO.
- (3) On 13 September 2022, Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi entered into the Board Level Irrevocable Undertaking in favour of Jiangzhong Yishang, pursuant to which Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi have irrevocably and unconditionally undertaken that they shall exercise their voting rights at the Board level strictly consistent with those of the Directors nominated or recommended by the Offeror in respect of the matters concerning the daily operations and the material decisions of the Company. The aggregate 73,300,000 Shares in which Jiangzhong Yishang is interested consist of (i) 34,530,000 Shares held by Mr. Yao Chuanglong, in which Jiangzhong Yishang is deemed to be interested as a result of being a party acting in concert with Mr. Yao Chuanglong by virtue of the SFO, and among which Jiangzhong Yishang has security interest over 5,000,000 Shares, representing the Shares pledged by Mr. Yao Chuanglong in favour of Jiangzhong Yishang; (ii) 9,720,000 Shares held by the Offeror, a direct wholly-owned subsidiary of Jiangzhong Yishang, in which Jiangzhong Yishang is deemed to be interested; and (iii) 29,050,000 Shares held by Jiangzhong Yishang.
- (4) These shares are held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited. Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited is a wholly-owned subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, which in turn is held by Guangzhou Pharmaceutical Holdings Limited as to 45.04%. Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited are deemed to be interested in the shares of the Company held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited by virtue of the SFO.

Save as disclosed herein, so far as is known to the Directors, as at the Latest Practicable Date, no person had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

4. OTHER DISCLOSURES

- (a) As at the Latest Practicable Date, save for the unconditional irrevocable undertakings not to accept the Offer provided by the Non-Accepting Shareholders, there were no persons who owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares who had, prior to the posting of this Composite Document, irrevocably committed themselves to accept or reject the Offer.
- (b) As at the Latest Practicable Date, no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) or (5) of the definition of “acting in concert” under the Takeovers Code, or who is an associate of the Company by virtue of classes (2), (3) or (4) of the definition of “associate” under the Takeovers Code, owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (c) As at the Latest Practicable Date, no Shares or any convertible securities, warrants, options or derivatives in respect of any Shares were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company.
- (d) As at the Latest Practicable Date, neither the Company nor any of the Directors has borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (e) As at the Latest Practicable Date, neither the Company nor any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) or (5) of the definition of “acting in concert”

under the Takeovers Code, or who is an associate of the Company by virtue of classes (2), (3) or (4) of the definition of “associate” under the Takeovers Code had any arrangement with any other person of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.

- (f) As at the Latest Practicable Date, save for Mr. Yan Jingbin, neither the Company nor any of the Directors was interested in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Offeror or Jiangzhong Yishang.
- (g) As at the Latest Practicable Date, there were no material contracts entered into by the Offeror in which any of the Directors has a material personal interest.

5. DEALINGS AND INTERESTS IN THE SHARES

- (a) During the Relevant Period, save for the Share Transfer Agreement, the Share Pledge Agreement and the unconditional irrevocable undertakings not to accept the Offer provided by the Non-Accepting Shareholders:
 - (i) none of the Directors had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
 - (ii) neither the Company nor any of the Directors had dealt for value in the shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror or Jiangzhong Yishang; and
 - (iii) no person who had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror’s Concert Group had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (b) During the period from the commencement of the Offer Period to the Latest Practicable Date, save for Share Transfer Agreement, the Share Pledge Agreement and the unconditional irrevocable undertakings not to accept the Offer provided by the Non-Accepting Shareholders:
 - (i) none of the subsidiaries of the Company, pension funds of the Company or any adviser to the Company or person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code but excluding exempt principal traders and exempt fund managers (as defined under the Takeovers Code) had owned or controlled or dealt for value in any of the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
 - (ii) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code and no person who had such an arrangement had any dealings in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and
 - (iii) no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

6. DIRECTORS’ SERVICE CONTRACTS

The Company has entered into a service contract or letter of appointment with each of the following Directors (i) which was entered into/amended within six months before the commencement of the Offer Period or (ii) for a fixed term of more than 12 months irrespective of notice period (in which case, the appointment shall be subject to the provision for retirement by rotation in the articles of association of the Company):

- (a) each of Mr. Yao Chuanglong and Ms. Zheng Yuyan has entered into a service contract with the Company for a term of three years from 31 May 2021 and subject to termination by not less than three months' notice in writing served by either party on the other. The remuneration of each of Mr. Yao Chuanglong and Ms. Zheng Yuyan under such service contract is RMB50,000 per annum;
- (b) Ms. Zhang Hanzi has entered into a service contract with the Company for a term of three years from 13 July 2022 and subject to termination by not less than three months' notice in writing served by either party on the other. The remuneration of Ms. Zhang Hanzi under such service contract is RMB50,000 per annum;
- (c) Mr. Li Weisheng has entered into a letter of appointment with the Company on 31 May 2021 for a term of three years from 31 May 2021 subject to termination by not less than one month's notice in writing served by either party on the other. Under the letter of appointment, Mr. Li Weisheng will not receive any remuneration;
- (d) Mr. Yan Jingbin has entered into a letter of appointment with the Company on 6 June 2022 for a term of three years from 6 June 2022 subject to termination by not less than one month's notice in writing served by either party on the other. Under the letter of appointment, Mr. Yan Jingbin will not receive any remuneration;
- (e) Ms. Fu Zheng has entered into a letter of appointment with the Company on 13 July 2022 for a term of three years from 13 July 2022 subject to termination by not less than one month's notice in writing served by either party on the other. Under the letter of appointment, Ms. Fu Zheng will not receive any remuneration; and
- (f) each of the independent non-executive Directors has entered into a letter of appointment with the Company on 31 May 2021 for a term of three years from 31 May 2021 and subject to termination by not less than one month's notice in writing served by either party on the other. The remuneration of each of Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian under their respective letter of appointment is HK\$144,000 per annum, RMB50,000 per annum and RMB50,000 per annum, respectively.

None of the Directors is entitled to any variable remuneration under their respective service contract or letter of appointment. Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into a service contract with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the Offer Period, (ii) is a continuous contract with a notice period of 12 months or more, or (iii) is a fixed term contract with more than 12 months to run irrespective of the notice period.

7. MATERIAL CONTRACTS

Save as disclosed below, there have been no material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) entered into by any member of the Group within two years immediately preceding the date on which the Offer Period commenced and up to the Latest Practicable Date:

- (a) a land resumption agreement dated 11 October 2022 entered into between the Company, Foshan Chanceng District Land Reserve Center (佛山市禪城區土地儲備中心) and Foshan Chancheng District Zumiao Sub-district Office (佛山市禪城區祖廟街道辦事處), pursuant to which the Company agreed to surrender the land use right to one parcel of land with an aggregate site area of approximately 16,827.75 sq. m. situated at No. 65, Foshan Avenue, Chancheng District, Foshan, the PRC* (佛山市禪城區佛山大道北 65 號) and the construction erected thereon to Foshan Chancheng District Land Reserve Center at a consideration by way of cash compensation of RMB160,000,000;
- (b) a framework sales agreement 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 acts as a primary distributor to the Jiangzhong Yishang and its subsidiaries from 6 June 2022 to 31 December 2024; and

- (c) a framework purchases 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 Jiangzhong Yishang and its subsidiaries act as a primary distributor to the Group from 6 June 2022 to 31 December 2024.

8. QUALIFICATIONS AND CONSENT OF EXPERT

The following are the qualifications of the experts who were engaged by the Company and have been named in this Composite Document and has given opinion and letter contained in this Composite Document:

Name			Qualifications
Merdeka Limited	Corporate Finance		a corporation licensed under the SFO to engage in type 6 regulated activity (as defined under the SFO)
ShineWing Accountants Partnership)	Certified (Special General	Public General	Chinese certified public accountants

Each of Merdeka and ShineWing has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of its letter and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, each of Merdeka and ShineWing did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of Merdeka and ShineWing did not have, directly or indirectly, any interest in any assets which had since 31 December 2021 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or arbitration of material importance known to the Directors to be pending or threatened by or against any member of the Group.

10. MISCELLANEOUS

- (a) None of the Directors will be or has been given any benefit (save for any statutory compensation required under appropriate laws) as compensation for loss of office or otherwise in connection with the Offer.
- (b) Save for the proposed changes to the Board composition as set out in the Section headed “Proposed change of Board and supervisory committee composition” in the “Letter from Guotai Junan Capital” in this Composite Document and the Share Transfer Agreement, there is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.
- (c) There is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror’s Concert Group, on the one hand, and any Directors, recent Directors, Shareholders or recent Shareholders, on the other hand, having any connection with or dependence upon the Offer.

11. GENERAL

- (a) The registered office and headquarters of the Company is located at No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, PRC.
- (b) The principal place of business of the Company in Hong Kong is located at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, whose address is Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The registered office of Merdeka, the Independent Financial Adviser, is located at Room 1108-1110 11/F Wing On Centre, 111 Connaught Road, Central, Hong Kong.
- (e) The English text of this Composite Document shall prevail over the Chinese text in case of inconsistency.

DOCUMENTS ON DISPLAY

Copies of the following documents are available on display on the website of the SFC (<http://www.sfc.hk>) and the website of the Company (<http://www.chmyy.com/>) from the date of this Composite Document up to and including the Closing Date:

- (a) the articles of association of the Company;
- (b) the articles of association of the Offeror;
- (c) the 2019 Annual Report (together with the clarification announcement to the 2019 Annual Report dated 8 May 2020), 2020 Annual Report and 2021 Annual Report;
- (d) the 2022 Interim Report;
- (e) the letter from Guotai Junan Capital, the text of which is set out on pages 7 to 14 of this Composite Document;
- (f) the letter from the Board, the text of which is set out on pages 15 to 20 of this Composite Document;
- (g) the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 of this Composite Document;
- (h) the letter from the Independent Financial Adviser, the text of which is set out on pages 23 to 41 of this Composite Document;
- (i) the written consents referred to in the paragraph headed “Qualifications and Consent of Expert” in each of Appendices V and VI;
- (j) the Share Transfer Agreement;
- (k) the Board Level Irrevocable Undertaking;
- (l) the Share Pledge Agreement;
- (m) the unconditional irrevocable undertakings not to accept the Offer provided by the Non-Accepting Shareholders;
- (n) the report from Merdeka dated 20 January 2023, the text of which is set out on pages III-1 to III-2 of this Composite Document;
- (o) the report from ShineWing dated 20 January 2023 the text of which is set out on pages IV-1 to IV-2 of this Composite Document;
- (p) the Directors' service contracts and letters of appointment referred to in the paragraph headed “Directors' Service Contracts” in Appendix VI;
- (q) the material contracts referred to in the paragraph headed “Material Contracts” in Appendix VI; and
- (r) this Composite Document and the accompanying Form of Acceptance.