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If you have sold or transferred all your shares in Charmacy Pharmaceutical Co., Ltd. (創美藥業股份有限公司) (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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創美·CH'MEI

CHARMACY PHARMACEUTICAL CO., LTD.

創美藥業股份有限公司

(a joint stock limited liability company established in the PRC)

(Stock Code: 2289)

**(1) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
ENTERING INTO FRAMEWORK LOAN AGREEMENT
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**

SUNWAH KINGSWAY

新華滙富

Kingsway Capital Limited

A letter from the Board is set out on pages 4 to 12 of this circular. A notice convening the extraordinary general meeting of the Company (the “EGM”) to be held at the conference room, on the 2nd floor, No. 33 Liyu Street, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, PRC at 3 p.m. on Monday, 17 April 2023, is set out on pages 32 to 34 of this circular.

Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on their behalfs. A proxy need not be a Shareholder. In order to be valid, the proxy form for the EGM must be deposited by hand or post, for holders of Shares of the Company, to the Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not less than 24 hours before the time for holding the EGM (or any adjournment thereof) for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarial copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meetings should they so wish.

27 March 2023

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DEFINITIONS

In this circular, unless otherwise defined or the context otherwise requires, the following expressions have the following meanings:

“Abstained Directors”	Mr. Yan Jingbin, Ms. Fu Zheng, Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi, who have abstained from voting on the Board resolutions to approve the Framework Loan Agreement and the Annual Caps
“Annual Caps”	the proposed maximum annual aggregate transaction values in respect of the transactions contemplated under the Framework Loan Agreement for the three years ending 31 December 2025
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Charmacy Pharmaceutical Co., Ltd. (創美藥業股份有限公司), a joint stock company established in the PRC with limited liability, whose Shares are listed and traded on the Main Board of the Hong Kong Stock Exchange (stock code: 2289)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Effective Date”	the date on which the entering into of the Framework Loan Agreement and the transactions contemplated hereunder and the Annual Caps, are approved by the Independent Shareholders at the EGM
“EGM”	the extraordinary general meeting of the Company to be convened and held on Monday, 17 April 2023 at 3 p.m. at the conference room, on the 2nd floor, No. 33 Liyu Street, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, PRC, notice of which is set out on pages 32 to 34 of this circular, and any adjournment thereof
“Framework Loan Agreement”	the framework loan agreement dated 2 March 2023 entered into between the Company and Jiangzhong Yishang in relation to the grant of loan facility not exceeding the

DEFINITIONS

	maximum limit as authorised by the statutory approval authorities of both parties by Jiangzhong Yishang to the Group for a term of three years commencing from the Effective Date
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee of the Company comprising all the independent non-executive Directors, namely Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe)
“Independent Financial Adviser”	Kingsway Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser advising the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Framework Loan Agreement
“Independent Shareholders”	the Shareholders other than Jiangzhong Yishang, and parties acting in concert with it and their respective associates, who, if they hold Shares, are required to abstain from voting on the resolutions to approve the Framework Loan Agreement and the Annual Caps at the EGM
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company, its connected persons and their respective associates
“Jiangzhong Yishang”	Jiangxi Jiangzhong Pharmaceutical Commercial Operation Co., Ltd.* (江西江中醫藥商業運營有限責任公司), a company incorporated in the PRC and a controlling shareholder (as defined under the Listing Rules) of the Company
“Jiangzhong Yishang Group”	Jiangzhong Yishang and its subsidiaries

DEFINITIONS

“Latest Practicable Date”	22 March 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended, modified or otherwise supplemental from time to time
“PRC”	The People’s Republic of China which shall, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“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
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares(s)”	share(s) in the share capital of the Company with nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent



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CHARMACY PHARMACEUTICAL CO., LTD.

創美藥業股份有限公司

(a joint stock limited liability company established in the PRC)

(Stock Code: 2289)

Executive Directors:

Mr. Yao Chuanglong (*Chairman*)

Ms. Zheng Yuyan

Ms. Zhang Hanzi

Non-executive Director:

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

Guangdong Province, PRC

Principal Place of Business in Hong Kong:

40th Floor,

Dah Sing Financial Centre,

No. 248 Queen's Road East,

Wanchai, Hong Kong

27 March 2023

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
ENTERING INTO FRAMEWORK LOAN AGREEMENT
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the Company's announcement dated 2 March 2023 in respect of the Framework Loan Agreement.

The purpose of this circular is to provide the Shareholders with information on, among other things, (i) the Framework Loan Agreement and the Annual Caps; (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Framework Loan Agreement; (iii) the recommendations from

LETTER FROM THE BOARD

the Independent Board Committee in respect of the Framework Loan Agreement; and (iv) a notice convening the EGM.

2. CONTINUING CONNECTED TRANSACTIONS

Framework Loan Agreement

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

Date	2 March 2023 (after trading hours)
Parties	The Company, (as borrower) and Jiangzhong Yishang (as lender)
Term	For a period of three years commencing from the Effective Date
Principal amount	The loan amount shall not exceed the maximum limit as authorised by the statutory approval authorities of both parties
Interest rate	The interest rate shall be determined by the parties with reference to the Company's cost of financing from banks or financial institutions in the same period
Repayment arrangement	Repayment arrangements shall be agreed by the parties and stated in the individual loan agreement
Early repayment	In the case of early repayment by the Company, interest shall be paid according to the actual duration of drawdown
Default	If the Company fails to repay the principal and accrued interests of the loan or commits any of the default events as specified under the individual loan agreement, the lender shall have the right to recover that particular loan on demand

LETTER FROM THE BOARD

Security	In accordance with Jiangzhong Yishang's financial and credit approval requirements, the Company shall provide Jiangzhong Yishang with its or its subsidiaries' inventories as a collateral. The specific ratio of security value over the individual loan amount depends on the negotiation between the parties and the actual situation.
Condition Precedent	The Framework Loan Agreement is subject to both parties obtaining their respective internal approval in relation to the entering of the Framework Loan Agreement and the transaction contemplated thereunder

3. THE PROPOSED ANNUAL CAPS AND BASIS OF DETERMINATION OF ANNUAL CAPS

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

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

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

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

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

LETTER FROM THE BOARD

The Annual Caps for the three years ending 31 December 2025 for the transactions contemplated under the Framework Loan Agreement were determined after considering, among other things, the need for sufficient working capital due to (i) the Group's expansion of its pharmaceutical end-user business through building a comprehensive pharmaceutical retail end-user network which covers the retailers in Guangdong Province and its surrounding areas, while capitalising on the business growth opportunities arising from the expansion of the non-tender market share brought by the adjustment of the relevant medical reform policies to increase its expansion into end-user networks such as retail pharmacies, clinics and health stations; and (ii) the expected increase of the Group's direct purchases from branded pharmaceutical manufacturers and the Group's active pursuit of long-term strategic cooperation with major pharmaceutical manufacturers which will accelerate the channel expansion and upgrading of mature market products and allow the Group to strive for more exclusive distribution of first-level distribution products and specialised sales specifications.

The Company will renew the annual cap or set a new annual cap in accordance with rule 14A.53 of the Listing Rules before the expiry of the Annual Caps on 31 December 2025.

4. SECURITIES BY WAY OF FLOATING CHARGE

As the Group's major assets, such as property, plant and equipment and its land use rights, have already been pledged to other banks as securities for other banking facilities, inventory possesses a relatively high book value among the Group's assets. Therefore, in line with market practice and after negotiation with Jiangzhong Yishang, the parties have decided to secure the loan by way of floating charge over the inventories of the Group. The specific ratio of security value (i.e. the inventory value to be subject to floating charge arrangement) over the individual loan amount depends on the negotiation between the parties and the actual situation. The Group and Jiangzhong Yishang will negotiate the specific ratio for each individual loan agreement to determine the actual inventory level to be provided as securities of the individual loan, based on, among other things, the size of the loan, the repayment schedule and the market situation at the time of entering into the individual loan agreement.

The inventories of the Group primarily comprise western medicine, Chinese patent medicine and health products. As a floating charge, no specific inventory will be charged or transferred to Jiangzhong Yishang while the Group will maintain sufficient inventory level not less than the charged inventory value to Jiangzhong Yishang. The floating charge can be registered to the Movable Financing Registry Portal from the Credit Reference Center of the People's Bank of China (also known as "Zhongdengwang"). The inventory level, including details of the inventory type and value, can be continuously monitored through the Group's real-time tracking system. The Company will provide regular reports to Jiangzhong Yishang regarding the inventory level, and Jiangzhong Yishang has the right to conduct on-site inspections for verification purposes. In case of default, Jiangzhong Yishang has the right to conclude an agreement with the Group to have the inventories sold or auctioned. With respect to all monies received in selling or auctioning the charged inventories, priority shall be given to

using the monies to make the relevant repayments to Jiangzhong Yishang.

5. REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK LOAN AGREEMENT

The signing of the Framework Loan Agreement demonstrates the continuous financial support provided by Jiangzhong Yishang as the controlling shareholder of the Company to the Group, and enables the Group to secure scalable, stable and reliable funding support to meet its operation needs. The terms of the Framework Loan Agreement, including the applicable interest rate, are agreed upon by the parties after arm's length negotiations, taking into account, among others, the prevailing market interest rates and practices.

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

6. INTERNAL CONTROL MEASURES

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

- (i). the designated staff of the capital management department of the Company will closely monitor the outstanding loan balances to be repaid under the Framework Loan Agreement and report the latest status of the loans granted under the Framework Loan Agreement to the capital management department of the Company on a monthly basis to ensure that the outstanding loan balances will not exceed the Annual Caps;
- (ii). the capital management department of the Company will report to the senior management on a monthly basis and the Directors (including the independent non-executive Directors) on a half-yearly basis in relation to the transaction status;
- (iii). before the signing of each individual loan agreement under the Framework Loan Agreement, the financing officer of capital management department of the Company will (a) check the benchmark lending interest rate published by the People's Bank of China; (b) compare the interest rate of the individual loan with at

LETTER FROM THE BOARD

least two major commercial banks that are principal bankers of the Group to confirm the interest rate charged by Jiangzhong Yishang is in line with the market rates and the individual loan agreements are entered into on normal commercial terms and would be no less favourable to the Group than those available from independent third parties; and (c) compare the specific ratio of security to be provided by the Group with the collateral value of the loans granted by two major commercial banks that are principal bankers of the Group; and the comparison result would be passed to the manager of the capital management department for further approval before further submitted to Mr. Yao Chuanglong, the chief executive officer of the Company for final approval. Such multi-level approval process ensures that the terms of the individual loan agreement, including the specific ratio of security to be provided by the Group, would be fair and reasonable and no less favourable to the Company than those available from independent third parties;

- (iv). the Company's external auditor will conduct an annual review of the transactions entered into under the Framework Loan Agreement to ensure that the transactions amount is within the Annual Caps and the transactions is in accordance with the terms set out in the Framework Loan Agreement; and
- (v). the Company's independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the Framework Loan Agreement to ensure that the Company has complied with its internal approval process and the relevant requirements under the Listing Rules.

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

7. IMPLICATIONS UNDER LISTING RULES

As at the Latest Practicable Date, Jiangzhong Yishang is a controlling shareholder of the Company and is (together with parties acting in concert with it) interested in an aggregate of 84,656,500 Shares (representing approximately 78.38% of the total issued share capital of the Company). Therefore, pursuant to the Listing Rules, Jiangzhong Yishang is a connected person of the Company and the Framework Loan Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

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

8. INFORMATION OF THE PARTIES

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

Jiangzhong Yishang is a company incorporated in the PRC with limited liability. It is principally engaged in the wholesale and retail of medicines and the sales of food, disinfection equipment and Class III medical devices. It is a Jiangxi provincial state-owned enterprise, owned as to (i) 20.5% by Jiangxi State- Owned Capital Operation Holdings Group Co. Ltd* (江西省國有資本運營控股集團有限公司), which is ultimately controlled by State-owned Assets Supervision and Administration Commission of Jiangxi Province* (江西省國有資產監督管理委員會); (ii) 20.5% by China Resources Jiangzhong Pharmaceutical Group Co., Ltd.*(華潤江中製藥集團有限責任公司), which is ultimately controlled by China Resources Pharmaceutical Group Limited, whose shares are listed on the main board of the Stock Exchange (Stock Code: 3320); and (iii) the remaining 59.0% by 11 other minority shareholders.

9. CLOSURE OF BOOKS

In order to determine the Shareholders who are entitled to attend the EGM, the register of members of the Company will be closed from Friday, 14 April 2023 to Monday, 17 April 2023 (both days inclusive), during which period no transfer of Shares can be registered. In order to be qualified to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 13 April 2023.

10. EGM

A notice convening the EGM to be held at the conference room, on the 2nd floor, No. 33 Liyu Street, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, PRC at 3 p.m. on Monday, 17 April 2023, is set out on pages 32 to 34 of this circular.

As Jiangzhong Yishang is a connected person, Jiangzhong Yishang, and parties acting concert with it and their respective associates will abstain from voting on the resolutions to approve the Framework Loan Agreement and the Annual Caps at the EGM.

Mr. Yan Jingbin and Ms. Fu Zheng are considered to have material interests by virtue of their employment and senior management in Jiangzhong Yishang Group. In addition, pursuant to the board level irrevocable undertaking dated 13 September 2022 executed by Mr. Yao

LETTER FROM THE BOARD

Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi, they have irrevocably and unconditionally undertaken to exercise their voting rights at the Board level strictly consistent with those of the Directors nominated or recommended by Jiangzhong Yishang Group, in respect of the matters concerning the daily operations and the material decisions of the Company and they would abstain from matters which the Directors related to Jiangzhong Yishang are required to abstain. Accordingly, the Abstained Directors have abstained from voting on the Board resolutions to approve the Framework Loan Agreement and the Annual Caps.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, other than Jiangzhong Yishang, parties acting concert with it and their respective associates, and the Abstained Directors, no other connected person of the Company, Shareholders or their respective associate has a material interest in the transactions contemplated under the Framework Loan Agreement and is required to abstain from voting on the relevant resolutions to be proposed at the EGM.

Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on their behalves. A proxy need not be a Shareholder. In order to be valid, the proxy form for the EGM must be deposited by hand or post, for holders of Shares of the Company, to the Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 24 hours before the time for holding the EGM (or any adjournment thereof) for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarial copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meetings should they so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the EGM will be taken by poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

11. RECOMMENDATIONS

The Directors (excluding (i) the Abstained Directors; and (ii) the independent non-executive Directors whose opinions are given in the letter from the Independent Board Committee after receiving the advice from the independent financial adviser) is of the view that (i) the Framework Loan Agreement is entered into in the ordinary and usual course of business of the Company; and (ii) the Framework Loan Agreement and its respective Annual Caps are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding the Abstained Directors but including the independent non-executive Directors who has taken the advice of the Independent Financial Adviser) recommend that the Independent Shareholders vote in favour of all resolutions in relation to the foregoing at the

LETTER FROM THE BOARD

forthcoming EGM. Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser and the appendix to this circular.

12. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee on pages 13 to 14 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders; and (ii) the letter from the Independent Financial Adviser on pages 15 to 26 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at its advice. Your attention is also drawn to the additional information set out in the Appendix to this circular.

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



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)

27 March 2023

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 27 March 2023 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Framework Loan Agreement and the Annual Caps, and to advise the Independent Shareholders on whether the same are fair and reasonable so far as the Independent Shareholders are concerned and are in interests of the Company and the Shareholders as a whole. Kingsway Capital Limited has been appointed as the Independent Finance Adviser to give recommendations to the Independent Board Committee and the Independent Shareholders in respect of the above matters.

Your attention is drawn to the “Letter from the Board” and to the advice of the Independent Financial Adviser in its capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Framework Loan Agreement and the Annual Caps are fair and reasonable and in the interest of the Company and its Independent Shareholders as a whole, as set out in the “Letter from the Independent Financial Adviser” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we consider (i) the Framework Loan Agreement is entered into in the ordinary and usual course of business of the Company; and (ii) the Framework Loan Agreement and the Annual Caps are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Framework Loan Agreement and the Annual Caps.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Yours faithfully
For and on behalf of the
Independent Board Committee of
Charmacy Pharmaceutical Co., Ltd.
Wan Chi Wai Anthony
Zhou Tao
Guan Jian (also known as Guan Suzhe)
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Kingsway Capital Limited to the Independent Board Committee and the Independent Shareholders prepared in relation to the continuing connected transactions for the purpose of inclusion in this circular.

SUNWAH KINGSWAY
新華滙富

27 March 2023

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTION ENTERING INTO FRAMEWORK LOAN AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Framework Loan Agreement (“**Framework Loan Agreement**”) together with its proposed annual caps for the three years ending 31 December 2025 (the “**Annual Caps**”), details of which are set out in the letter from the board (the “**Letter from the Board**”) contained in the circular of the Company dated 27 March 2023 (the “**Circular**”) to the Shareholders, of which this letter forms part. Unless specified otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

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

IMPLICATION UNDER THE LISTING RULES

As at the Latest Practicable Date, Jiangzhong Yishang is a controlling shareholder of the Company and is (together with parties acting in concert with it) interested in an aggregate of 84,656,500 Shares (representing approximately 78.38% of the total issued share capital of the Company). Therefore, pursuant to the Listing Rules, Jiangzhong Yishang is a connected

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

person of the Company, and the Framework Loan Agreement and the transaction contemplated thereunder constitutes a continuing connected transaction of the Company.

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

The Independent Board Committee comprising Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (all being the independent non-executive Directors), has been established to advise the Independent Shareholders as to whether (i) the terms of the Framework Loan Agreement and the Annual Caps have been determined on a fair and reasonable basis and entered into on normal commercial term and in the ordinary and usual course of business of the Company and in the interest of the Company and Shareholders as a whole; and (ii) to vote in favour of the resolutions to be proposed at the EGM. We, Kingsway Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

We are independent pursuant to Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Framework Loan Agreement and the Annual Caps. As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. During the last two years, we have not been engaged as any financial adviser to the Company. Accordingly, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Framework Loan Agreement and the transactions contemplated.

BASIS OF OUR OPINION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations provided by the Directors and the management of the Company, for which they are solely and wholly responsible for are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were provided or made and will continue to be so as at the date of the Circular. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the management of the Company in the Circular were reasonably made after due enquires and careful consideration by the Directors and the management of the Company and there are no other facts not contained in the Circular the omission of which would make

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

any such statement contained in the Circular misleading. We have also assumed that the information referred to in the Circular will continue to be true, accurate and complete as at the date of the Circular and if there is any material change of information in the Circular up to the date of the EGM, we will inform the Shareholders as soon as practicable. 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 and opinions made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company nor have we conducted any independent investigation into the business, financial conditions and affairs or the prospect of the Group or any of their associates.

The Directors have collectively and individually accepted full responsibility for all information given with regard to the Company including particulars given in compliance with the Listing Rules. The Directors have confirmed, after having made all reasonable enquires, which to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the continuing connected transactions contemplated under the Framework Loan Agreement and the Annual Caps, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken the following principal factors and reasons into consideration:

1. Background information of the parties to the Framework Agreements and the Annual Caps

Information of the Company and the Group

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

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The table below sets forth a summary of the financial highlights of the Group for the two years ended 31 December 2021 as extracted from the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”) and the six months ended 30 June 2022 as extracted from the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”):

	For the year ended 31 December		For the six months ended 30 June	
	2020	2021	2021	2022
	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue	3,991,711	3,793,618	1,993,014	1,887,079
Net profit	40,556	23,153	25,961	20,693

Comparison between the years ended 31 December 2020 and 2021

The total revenue of the Group decreased from approximately RMB3,991.7 million for the year ended 31 December 2020 to approximately RMB3,793.6 million for the year ended 31 December 2021, representing a decrease of approximately 5.0%. According to the 2021 Annual Report, the decrease of total revenue of the Group was because of (i) during the year ended 31 December 2021, due to the COVID-19 pandemic in Guangdong Province, retail pharmacies were subject to prevention and control measures such as restrictions on customer flow and sales, adversely affecting the customer flow and sales of pharmacies which dragged down the revenue; and (ii) in response to the economic environment, the Group adopted a relatively conservative marketing strategy to improve the quality of operations, and in order to ensure receipt of payment for our sales, the Group adopted appropriate control measures for some distributors during the year ended 31 December 2021, which resulted in the decline in the operating revenue.

The net profit of the Group decreased by approximately 42.9% to RMB23.2 million for the year ended 31 December 2021 from RMB40.6 million for the year ended 31 December 2020.

Comparison between the six months ended 30 June 2021 and 2022

The total revenue of the Group slightly decreased from approximately RMB1,993.0 million for the six months ended 30 June 2021 to approximately RMB1,887.1 million for the six months ended 30 June 2022, representing a decrease of approximately 5.3%.

According to the 2022 Interim Report, the decrease of total revenue of the Group was because 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 in the first half of 2022.

The net profit of the Group decreased by approximately 20.3% to RMB20.7 million for the six months ended 30 June 2022 from RMB26.0 million for the six months ended 30 June 2021.

Information of Jiangzhong Yishang

Jiangzhong Yishang is a company incorporated in the PRC with limited liability. It is principally engaged in the wholesale and retail of medicines and the sales of food, disinfection equipment and Class III medical devices. It is a Jiangxi provincial state-owned enterprise, owned as to (i) 20.5% by Jiangxi State-Owned Capital Operation Holdings Group Co. Ltd* (江西省國有資本運營控股集團有限公司), which is ultimately controlled by State-owned Assets Supervision and Administration Commission of Jiangxi Province* (江西省國有資產監督管理委員會); (ii) 20.5% by China Resources Jiangzhong Pharmaceutical Group Co., Ltd.*(華潤江中製藥集團有限責任公司), which is ultimately controlled by China Resources Pharmaceutical Group Limited, whose shares are listed on the main board of the Stock Exchange (Stock Code: 3320); and (iii) the remaining 59.0% by 11 other minority shareholders.

2. Reasons and benefits for entering the Framework Loan Agreement and the Annual Caps

Background of the Framework Loan Agreement

As stated in the Letter from the Board, the signing of the Framework Loan Agreement demonstrates the continuous financial support provided by Jiangzhong Yishang as the controlling shareholder of the Company to the Group, and enables the Group to secure scalable, stable and reliable funding support to meet its operation needs. Taking into account (i) the financial situation of the Group and the expansion to pharmaceutical terminal business; (ii) the cash level to be maintained for the daily operation of the Group; and (iii) the available sources of fundings, the Directors are of the view that entering into the Framework Loan Agreement is in the interests of the Company and the Shareholders as a whole.

As discussed with the management of the Company, the Group generally obtain facility from over 13 commercial banks, but none of them grant the Group with the credit line over RMB500 million. The banking facility is normally for fixed term around one year and the success and timing of renewal would materially affect the liquidity of the Company. Hence, the Directors consider that it is appropriate to have more option to obtain the facility.

According to 《“十四五”醫藥工業發展規劃》(14th Five-Year Plan for the Development of the Pharmaceutical Industry*) (the “**Plan**”) jointly issued by Ministry of Industry and Information Technology of the People’s Republic of China, National Development and Reform Commission, Ministry of Science and Technology of the People’s Republic of China, Ministry of Commerce PRC, National Health Commission of the People’s Republic of China, Ministry of Emergency Management of the People’s Republic of China, National Medical Products Administration, National Healthcare Security Administration and National Administration of Traditional Chinese Medicine (the “**Departments**”), it proposes to make the industrial chain and supply chain to be stable and controllable, promotes the cooperation of upstream and downstream enterprises and aims to improve and enhance the level of medicine capacity. The Departments and related PRC government departments will cooperate and implement the Plan and develop the pharmaceutical industry. It also targets to steadily increase the scale of pharmaceutical industry with average annual growth rate of operating income and profit of at least 8% during 2021 to 2025.

Having considered that (i) external financing is essential for the Group’s daily operations; (ii) the success and timing of renewal of banking facility would materially affect the liquidity of the Company; (iii) the Framework Loan Agreement allows the Group to have more options to obtain external financing for their daily operation; (iv) Jiangzhong Yishang is more familiar with the capital structure, business operations, fundings needs and cash flow pattern of the Group than independent commercial banks in the PRC; (v) the Framework Loan Agreement does not restrict the Group to obtain facility from other independent commercial banks; and (vi) the support from the Department to implement the Plan, we concur with the Directors’ view that the entering into the Framework Loan Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Framework Loan Agreement and the Annual Caps

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

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

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

Annual caps and its basis of determination

A summary of the proposed annual caps under the Framework Loan Agreement for the three years ending 31 December 2025 are set out in the table below:

	Financial year ending 31 December		
	2023	2024	2025
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
For the transactions contemplated under the Framework Loan Agreement	500	500	500

As discussed with the management of the Company, the annual borrowing caps for the maximum aggregate amount which can be borrowed by the Group on any single day were determined after having considered (i) the need for sufficient working capital of the Group due to (a) the Group's expansion of its pharmaceutical

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end-user business through building a comprehensive pharmaceutical retail end-user network which covers the retailers in Guangdong Province and its surrounding areas, while capitalising on the business growth opportunities arising from the expansion of the non-tender market share brought by the adjustment of the relevant medical reform policies to increase its expansion into end-user networks such as retail pharmacies, clinics and health stations; and (b) the expected increase of the Group's direct purchases from branded pharmaceutical manufacturers and the Group's active pursuit of long-term strategic cooperation with major pharmaceutical manufacturers which will accelerate the channel expansion and upgrading of mature market products and allow the Group to strive for more exclusive distribution of first-level distribution products and specialised sales specifications; and (ii) the maximum credit line granted by the independent commercial banks to the Group at any time in the past three years. As further discussed with the management of the Company, the Group aims to maintain business relationship with the existing commercial banks. We noted that the maximum amount of borrowing of the Group on any single day in 2020, 2021 and 2022 were approximately RMB1,146 million, RMB1,158 million and RMB1,109 million respectively and the Annual Caps represent less than 50% to the maximum amount of borrowing of the Group granted by the independent commercial banks to the Group on any single day in 2020, 2021 and 2022.

In light of the above, we concurred the view of the Director that the proposed annual caps under the Framework Loan Agreement are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Interest rate

As discussed with the management of the Company, there was only one loan provided by Jiangzhong Yishang in November 2022 (the “**Jiangzhong Loan**”) and Jiangzhong Yishang did not provide any other loan facility to the Group for the three years prior to the Framework Loan Agreement.

For our due diligence purpose, the Group had 8 new banking facilities from October to November 2022 and we have obtained and reviewed top 3 banking facilities entered into between the Group and the independent commercial banks. On the basis of our review, we note that the interest rate offered by Jiangzhong Yishang was the lowest by comparing with other independent commercial bank.

Security

As stated in the Letter from the Board, the Group's major assets, such as property, plant and equipment and its land use rights, have already been pledged to other banks as securities for other banking facilities, inventory possesses a relatively high book value among the Group's assets, therefore, after negotiation with

Jiangzhong Yishang, the parties have decided to secure the loan by way of floating charge over the inventories of the Group. The specific ratio of security value (i.e. the inventory value to be subject to floating charge arrangement) over the individual loan amount depends on the negotiation between the parties and the actual situation. The Group and Jiangzhong Yishang will negotiate the specific ratio for each individual loan agreement to determine the actual inventory level to be provided as securities of the individual loan, based on, among other things, the size of the loan, the repayment schedule and the market situation at the time of entering into the individual loan agreement.

For our due diligence purpose, the Group had 1 banking facility with inventories charged as security and we have obtained and reviewed such banking facility entered into between the Group and the independent commercial bank. In addition, as discussed with the management of the Company, during their negotiation with the commercial banks on the security, floating charge is also an option stated in commercial bank' standard charge agreement. We have reviewed such standard charge agreement and noted the same. On the basis of our review, we note that (i) security by way of floating charge is not uncommon; and (ii) the term of use of inventories as collateral under the Framework Loan Agreement was in line with the term offered by other independent commercial bank.

In addition, various internal control measures will be put in place within the Group to ensure compliance with the terms, including interest rate and security, under the Framework Loan Agreement (as further discussed in the section headed "Internal control measures within the Group" below).

In light of the above, in particular, the comparison of the interest rate and security with two major commercial banks under internal control measures before the signing of each individual loan agreement under the Framework Loan Agreement, we are of the view that the terms of the Framework Loan Agreement and the continuing connected transactions contemplated thereunder are on normal commercial terms, fair and reasonable and on terms no less favourable to the Company than terms available from independent third parties.

4. Internal control measures within the Group

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

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- (i) the designated staff of the capital management department of the Company will closely monitor the outstanding loan balances to be repaid under the Framework Loan Agreement and report the latest status of the loans granted under the Framework Loan Agreement to the capital management department of the Company on a monthly basis to ensure that the outstanding loan balances will not exceed the Annual Caps;
- (ii) the capital management department of the Company will report to the senior management on a monthly basis and the Directors (including the independent non-executive Directors) on a half-yearly basis in relation to the transaction status;
- (iii) before the signing of each individual loan agreement under the Framework Loan Agreement, the financing officer of capital management department of the Company will (a) check the benchmark lending interest rate published by PBOC; (b) compare the interest rate of the individual loan with at least two major commercial banks that are principal bankers of the Group to confirm the interest rate charged by Jiangzhong Yishang is in line with the market rates and the individual loan agreements are entered into on normal commercial terms and would be no less favourable to the Group than those available from independent third parties; and (c) compare the specific ratio of security to be provided by the Group with the collateral value of the loans granted by two major commercial banks that are principal bankers of the Group; and the comparison result would be passed to the manager of the capital management department for further approval before further submitted to Mr. Yao Chuanglong, the chief executive officer of the Company for final approval. Such multi-level approval process ensures that the terms of the individual loan agreement, including the specific ratio of security to be provided by the Group, would be fair and reasonable and no less favourable to the Company than those available from independent third parties;
- (iv) the Company's external auditor will conduct an annual review of the transactions entered into under the Framework Loan Agreement to ensure that the transactions amount is within the Annual Caps and the transactions is in accordance with the terms set out in the Framework Loan Agreement; and
- (v) the Company's independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the Framework Loan Agreement to ensure that the Company has complied with its internal approval process and the relevant requirements under the Listing Rules.

We have further reviewed the internal control manual regarding the continuing connected transactions between the Company and connected parties and as advised by the management of the Company, we noted that (i) the capital management department of the Company monitors the cumulative actual transaction amounts against the approved annual caps to ensure the compliance of the terms and policy;

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(ii) the auditor will conduct an annual review of the continuing connected transactions of the Company to assess whether such transactions have been carried out in accordance with the relevant terms of the agreement entered into by the Company. As advised by the management of the Company, the Group will endeavour to carry out adequate supervision over the terms and policy under the Framework Loan Agreement against the Annual Caps, with a view to ensure that necessary measures and appropriate actions for the compliance with the applicable requirements will be promptly taken.

We have considered and noted that (i) the Company has adequate internal control procedures as aforementioned; (ii) the Jiangzhong Loan and the samples of banking facilities between the Group and the independent commercial banks, reviewed by us are consistent with the relevant internal control measures as aforementioned; and (iii) the independent non-executive Directors will conduct an annual review of the transactions entered into under the Framework Loan Agreement to ensure that the Company has complied with its internal approval process.

In view of the above, in particular, the comparison of the interest rate and security with two major commercial banks under internal control measures before the signing of each individual loan agreement under the Framework Loan Agreement, we consider that the internal control manual, if implemented effectively by the Group, are sufficient to safeguard Shareholders' interest in conducting the Framework Loan Agreement and the continuing connected transactions contemplated thereunder. Accordingly, we are of the view that the internal control procedures are in place and in compliance with the internal measures as mentioned above.

For further details of the internal control measures adopted by the Group, please refer to the section headed "INTERNAL CONTROL MEASURES" in the Letter from the Board.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the view that (i) the Framework Loan Agreement is entered into in the ordinary and usual course of business of the Company; and (ii) the Framework Loan Agreement and its respective Annual Caps are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, and recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Yours faithfully,
For and on behalf of
Kingsway Capital Limited

Stanley Chung
Managing Director

Note:

Mr. Stanley Chung has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2006. Mr. Stanley Chung have participated in and completed various advisory transactions (including connected transactions of listed companies in Hong Kong).

*The English translation of the Chinese name(s) in this letter, where indicated with * is included for information purpose only and should not be regarded as the official English name(s) of such Chinese names.*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, include particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

I. 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, its members of the Group and/ or any of its associated corporations (as defined in Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as 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 of the Listing Rules as adopted by the Company 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	84,656,500 (L) ⁽²⁾ Shares	78.38%

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) The aggregate 84,656,500 Shares in which Mr. Yao Chuanglong is interested consist of (i) 34,530,000 Shares held by Mr. Yao Chuanglong; (ii) 21,076,500 Shares held by Jiangxi Pharmaceutical Investment Co., Limited, 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 Jiangxi Pharmaceutical Investment Co., Limited 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.

II. Interests and short positions of substantial Shareholders

As at the Latest Practicable Date, so far as the Directors are aware, the following persons/entities (other than any Directors, supervisors or chief executives of the Company) had or deemed to have an interest or short position in the Shares or underlying shares of the Company which 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:

Name of shareholder	Capacity/ of interest	Nature	Number of Shares		Approximate shareholding percentage of the total issued share capital ⁽¹⁾
Ms. You Zeyan	Interest of spouse		84,656,500 (L) ⁽²⁾	Shares	78.38%
Jiangzhong Yishang	Beneficial interest controlled corporation, person having a security interest in the shares and interests held jointly with another person	owner, in	84,656,500 (L) ⁽³⁾	Shares	78.38%
Jiangxi	Beneficial owner		21,076,500	Shares	19.52%

Pharmaceutical
Investment Co.,
Limited (L)⁽⁴⁾

The letter “L” refers to 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) 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) The aggregate 84,656,500 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) 21,076,500 Shares held by Jiangxi Pharmaceutical Investment Co., Limited, 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 Jiangxi Pharmaceutical Investment Co., Limited. As Jiangxi Pharmaceutical Investment Co., Limited is a direct wholly-owned subsidiary of Jiangzhong Yishang, Jiangzhong Yishang is deemed to be interested in the Shares of the Company held by Jiangxi Pharmaceutical Investment Co., Limited.

Save as disclosed herein, so far as is known to the Directors, the Directors were not aware of any person who had, as at the Latest Practicable Date, an interest or short position in Shares or underlying shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group other than contracts expiring or by the employer within one year without payment of compensation (other than statutory compensation).

4. LITIGATIONS

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance were pending or threatened against any member of the Group.

5. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up.

6. QUALIFICATION OF EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Kingsway Capital Limited	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Kingsway Capital Limited had no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, Kingsway Capital Limited had no direct or indirect interest in any asset which had been, since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

Kingsway Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein a copy of its advice and references to its name, in the form and context in which they respectively appear. The letter of the Independent Financial Adviser contained herein was issued on 27 March 2023 and was made by Kingsway Capital Limited for incorporation in this circular.

7. DIRECTOR'S INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

None of the Directors has any direct or indirect interest in any assets which have 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 since 31 December 2021, being the date up to which the latest published audited financial statements of the Group were made.

None of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

8. MISCELLANEOUS

This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English text shall prevail.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be available on the website of the Stock Exchange (<https://www.hkexnews.hk>) and the website of the Company (<https://www.chmyy.com>) from the date of this circular up to and including the date of the EGM:

- (i) the Framework Loan Agreement;
- (ii) the letter from the Independent Board Committee, the text of which is set out on pages 13 to 14 of this circular;
- (iii) the letter from the Independent Financial Adviser, the text of which is set out on pages 15 to 26 of this circular;
- (iv) the written consent of Kingsway Capital Limited referred to in paragraph 6 of this Appendix; and
- (v) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



創美·CH'MEI

CHARMACY PHARMACEUTICAL CO., LTD.

創美藥業股份有限公司

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

(Stock Code: 2289)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Charmacy Pharmaceutical Co., Ltd. (the “Company”) will be held at the conference room, on the 2nd floor, No. 33 Liyu Street, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, the People’s Republic of China (the “PRC”) at 3 p.m. on Monday, 17 April 2023, for the purpose of considering, and if thought fit, passing (with or without amendments) the following resolutions:

Ordinary Resolutions

1. “THAT the framework loan agreement dated 2 March 2023 (the “**Framework Loan Agreement**”) entered into between the Company and Jiangxi Jiangzhong Pharmaceutical Commercial Operation Co., Ltd.* (江西江中醫藥商業運營有限責任公司) (“**Jiangzhong Yishang**”) in relation to the grant of loan facility not exceeding the maximum limit as authorised by the statutory approval authorities of both parties by Jiangzhong Yishang to the Group for a term of three years, the transactions contemplated thereunder and the proposed annual caps for the transactions contemplated thereunder, be and are hereby approved and confirmed”; and
2. “THAT Mr. Yao Chuanglong be and is hereby authorised to (i) determine the relevant commercial terms arising from the Framework Loan Agreement, including but not limited to the interest rate of each individual loan agreements, the specific ratio of inventories of the Company and its subsidiaries as a collateral and the relevant collateral agreements, (ii) sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and (iii) do all such things and take all such actions as he/she may consider necessary or desirable for the purpose of giving effect to the Framework Loan Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

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

Shantou, the PRC, 27 March 2023

Notes:

1. All resolutions at the meeting will be taken by poll pursuant to the Listing Rules. The results of the poll will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company in accordance with the Listing Rules.

2. The register of members of the Company will be closed from Friday, 14 April 2023 to Monday, 17 April 2023 (both days inclusive), during which period no transfer of Shares can be registered. In order to be qualified to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 13 April 2023.

3. Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on their behalves. A proxy need not be a Shareholder of the Company.

4. In order to be valid, the proxy form for the EGM must be deposited by hand or post to the Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 24 hours (not later than 3 p.m. on Sunday, 16 April 2023) before the time for holding the EGM (or any adjournment thereof) for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarial copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meetings should they so wish.

If the proxy is a legal person, its legal representative or any representative authorised by a resolution of its board of directors or by other governing body shall attend the above meeting of the Company on its behalf. If the Shareholder is a recognised clearing house (or its proxy) defined by the Hong Kong relevant Ordinance from time to time, the Shareholder may authorise one or more persons it considers appropriate as its representative(s) at the above meeting; however, if more than one person are authorised, the power of attorney shall contain the number of shares for which such persons are authorised, and shall be signed by an authorised personnel of the recognised clearing house. The person(s) so authorised can represent the recognised clearing house (or its proxy) to attend the meeting and exercise its right, as if the persons are the Company's individual Shareholders, and shall not be required to produce evidence of shareholding, the notarised power of attorney and/or further evidence to prove that he/ she/they have been duly authorised.

A vote provided in according to the instruments in such proxy forms shall be valid, notwithstanding the previous death or loss of capacity of the appointer or the revocation of the proxy or of the authority under which the proxy was executed, or the Shares are transferred, provided that no notice in writing of such matters shall have been received by the Company prior to the above meeting.

5. Shareholders or their proxies shall provide their identity documents when attending the EGM.

6. In case of joint holders of any Shares, only the person whose name is at the first place on the register of shareholders has the rights to receive the certificate of relevant Shares and notice from the Company and to attend or exercise all of the votes relating to the Shares.

NOTICE OF EXTRAORDINARY GENERAL MEETING

As at the date of this notice, the executive Directors are Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi; the non-executive Directors are Mr. Li Weisheng, Mr. Yan Jingbin and Ms. Fu Zheng; and the independent non-executive Directors are Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe).

**For identification purpose only*