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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular, or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

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 SALES AGREEMENT AND FRAMEWORK  
PURCHASES AGREEMENT  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



**SORRENTO**  
CAPITAL LIMITED  
擎天資本有限公司

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A letter from the Board is set out on pages 5 to 14 of this circular. A notice convening the extraordinary general meeting of the Company (the “EGM”) to be held at the conference room, on 3rd floor, No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, PRC at 11:00 a.m. on Monday, 6 June 2022 or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, is set out on pages 38 to 40 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 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 H shares of the Company, to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong and, for holders of domestic shares of the Company, to the headquarters in the PRC of the Company 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.

19 May 2022

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## DEFINITIONS

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

“Annual Caps”	the proposed maximum annual aggregate transaction values in respect of the transactions contemplated under the Framework Sales Agreement and/or the Framework Purchases Agreement for the three years ending 31 December 2024, as the case may be
“Articles of Association”	the articles of association of the Company as amended, modified or otherwise supplemental from time to time
“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 H Shares are listed and traded on the Hong Kong Stock Exchange (stock code: 2289)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company
“Domestics Share(s)”	ordinary share(s) issued by the Company in the PRC with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in RMB by PRC natural persons or entities established under the laws of the PRC
“Effective Date”	the date on which the entering into of the Framework Agreements and the transactions contemplated thereunder 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, 6 June 2022 at 11:00 a.m. or immediately after the conclusion of the annual general meeting of the Company to be held on the same day,

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## DEFINITIONS

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	whichever is later, at the conference room, on 3rd floor, No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, PRC, notice of which is set out on pages 38 to 40 of this circular, and any adjournment thereof
“Framework Agreements”	the Framework Sales Agreement and the Framework Purchases Agreement
“Framework Sales Agreement”	the framework contract 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 Group
“Framework Purchases Agreement”	the framework 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 the Jiangzhong Yishang Group acts as a Primary Distributor from the Jiangzhong Yishang Group
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with nominal value of RMB1.00 each, which is/are listed and traded on the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board 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”	Sorrento 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 Agreements

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## DEFINITIONS

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“Independent Shareholders”	the Shareholders other than Jiangzhong Yishang and its associates, who, if they hold Shares, are required to abstain from voting on the resolutions to approve the Framework Agreements 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 Yishang 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 substantial shareholder (as defined under the Listing Rules) of the Company
“Jiangzhong Yishang Group”	Jiangzhong Yishang and its subsidiaries
“Latest Practicable Date”	17 May 2022, 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
“Primary Distributor”	distributors which purchase products directly from pharmaceutical manufacturers or their pharmaceutical distributor companies (regardless of whether they have obtained an exclusive distribution right or not)
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares(s)”	the Domestic Share(s) and the H Share(s)

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## DEFINITIONS

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“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

*\*For identification purpose only*



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)**

***Executive Directors:***

Mr. Yao Chuanglong (*Chairman*)

Ms. Zheng Yuyan

***Non-executive Director:***

Mr. Li Weisheng

***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

19 May 2022

*To the Shareholders*

Dear Sir or Madam,

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

**1. INTRODUCTION**

Reference is made to the Company's announcement dated 11 April 2022 in respect of, among other things, (i) the Framework Sales Agreement and (ii) the Framework Purchases Agreement.

The purpose of this circular is to provide the Shareholders with information on, among other things, (i) the Framework Agreements 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 Agreements; (iii) the recommendations from the

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## LETTER FROM THE BOARD

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

### 2. CONTINUING CONNECTED TRANSACTIONS

#### Framework Sales Agreement

The principal terms of the Framework Sales Agreement and the transactions contemplated thereunder are as follows:

Date	11 April 2022
Parties	The Company, as seller Jiangzhong Yishang, as purchaser
Effective period	From the Effective Date to 31 December 2024
Subject Matter	<p>Any member of the Group may from time to time within the ambit of the Framework Sales Agreement enter into individual implementation agreements with any members of the Jiangzhong Yishang Group for the sales of medicines, medical devices, healthcare products and food for which the Group acts as a Primary Distributor.</p> <p>Any such implementation agreements shall not contravene the provisions of the Framework Sales Agreement.</p>
Pricing basis	<p>The price of the products shall be agreed and stated in the implementation agreements after arm's length negotiation between the Group and the Jiangzhong Yishang Group based on normal commercial terms after taking into consideration the market conditions at the relevant time, the size of orders and the technical conditions, and the relevant costs and prices offered to Independent Third Party customers, and in any event shall be</p>

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## LETTER FROM THE BOARD

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comparable to those offered by the Group to Independent Third Party customers.

Payment arrangement

Payment arrangements shall be agreed by the parties and stated in the individual implementation agreements, and in any event shall be comparable to those offered by the Group to Independent Third Party customers.

Condition Precedent

The Framework Sales Agreement is conditional upon the Independent Shareholders approving it and the transactions contemplated thereunder and the Annual Caps.

### **Framework Purchases Agreement**

Date

11 April 2022

Parties

The Company, as purchaser  
Jiangzhong Yishang, as seller

Effective period

From the Effective Date to 31 December 2024

Subject Matter

Any member of the Group may from time to time within the ambit of the Framework Purchases Agreement enter into individual implementation agreements with any members of the Jiangzhong Yishang Group for the purchase of medicines, medical devices, healthcare products and food for which the Jiangzhong Yishang Group acts as a Primary Distributor.

Any such implementation agreements shall not contravene the provisions of the Framework Purchases Agreement.

Pricing basis

The price of the purchase of products shall be agreed and stated in the implementation

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## LETTER FROM THE BOARD

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agreements after arm's length negotiation between the Group and Jiangzhong Yishang Group after taking into consideration the market conditions at the relevant time, the size of orders and the technical conditions, and all other purchases from Independent Third Party suppliers and in any event shall be comparable to those offered to the Group by Independent Third Party suppliers.

### Payment arrangement

Payment arrangements shall be agreed by the parties and stated in the individual implementation agreements, and in any event shall be comparable to those offered to the Group by Independent Third Party suppliers.

### Condition Precedent

The Framework Purchases Agreement is conditional upon the Independent Shareholders approving it and the transactions contemplated thereunder and the Annual Caps.

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

For the three years prior to the entering into of the Framework Sales Agreement, the Group did not sell any medicines, medical devices, healthcare products and food to the Jiangzhong Yishang Group. The Annual Caps for the Framework Sales Agreement for the three years ending 31 December 2024 are set out below:

	<b>Financial year ending 31 December</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
For the transactions contemplated under the Framework Sales Agreement	160	200	230

The Annual Caps for the three years ending 31 December 2024 for the transactions contemplated under the Framework Sales Agreement are determined after considering, among other things, (i) the expected demand of medicines, medical devices, healthcare products and food supplied by the Group from the Jiangzhong Yishang Group for which the Group acts as a Primary Distributor; (ii) the expected increase in such demand attributable to the favourable

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## LETTER FROM THE BOARD

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macroeconomic and market environment; and (iii) a reasonable buffer for an upward adjustments (including due to inflation or otherwise).

For the three years prior to the entering into of the Framework Purchases Agreement, the Group did not purchase any medicines, medical devices, healthcare products and food from the Jiangzhong Yishang Group. The Group has procured the aforesaid type of products within the Framework Purchases Agreement from other suppliers for the three years prior to the entering into of the Framework Purchases Agreement. The Annual Caps for the Framework Purchases Agreement for the three years ending 31 December 2024 are set out below:

	<b>Financial year ending 31 December</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
For the transactions contemplated under the Framework Purchases Agreement	160	240	320

The Annual Caps for the three years ending 31 December 2024 for the transactions contemplated under the Framework Purchases Agreement are determined after considering, among other things, (i) the expected sales of medicines, medical devices, healthcare products and food supplied by the Jiangzhong Yishang Group of which the Jiangzhong Yishang Group acts as a Primary Distributor; (ii) the historical business growth of the Group; (iii) the potential business growth of the Group attributable to the macroeconomic and market environment; and (iv) a reasonable buffer for an upward adjustments (including due to inflation or otherwise).

#### **4. REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENTS**

Jiangzhong Yishang is a mixed-ownership state-controlled enterprise in Jiangxi Province. It has distribution channels consisting of more than 700 franchise pharmacies over five provinces in the PRC, namely Jiangxi, Shandong, Henan, Sichuan and Jiangsu. Leveraging its advantages in policies, resources and brand as a state-controlled enterprise, Jiangzhong Yishang strives to build a modern pharmaceutical business platform covering all channels, all classes, the whole industry chain and the nationwide market. To do this, it has been building a pharmaceutical business platform focusing on sales by providing specialised solutions for individual pharmacies, small or medium-sized franchise pharmacies and clinics (non-bidding markets) in China's counties and towns; meanwhile, it has been comprehensively expanding strategic business areas such as pharmaceutical production, modern intelligent logistics, third-party entrusted distribution, "internet plus finance" and "internet plus retail".

The Directors are of the view that (i) the Framework Sales Agreement enables the Group to obtain stable customers, to expand the Group's sales coverage and achieve better business

performance; and (ii) the Framework Purchases Agreement enables the Group to secure a stable source of the relevant products and onsell them in the ordinary course of business of the Group, so as to enrich the Group's product portfolio.

## **5. INTERNAL CONTROL**

In order to ensure the terms of the Framework Agreements 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 finance department of the Company will closely monitor the transactions under the Framework Agreements to ensure that the transaction amount thereunder will not exceed the Annual Caps;
- (ii). the sales department of the Group shall price the products with its costs as a benchmark, under the basis of which the Group shall determine the final prices for sale to Jiangzhong Yishang Group by comparing against quotations or prices offered by the Group to at least two Independent Third Party customers recorded in the internal database of the Group which contains information of selling prices of all previous sales transactions of the Group. The final prices must be finally approved by the head of product management department of the Company. This internal control procedure applies to and shall be complied with in each sales of the Group;
- (iii). the procurement department of the Group shall determine whether to accept the procurement prices offered by the Jiangzhong Yishang Group by comparing the quotations or prices offered by the Jiangzhong Yishang Group to quotations of at least two Independent Third Party suppliers obtained by the personnel of product management department of the Company. The manager of the procurement department together with the head of product management department of the Company will jointly approve the final procurement prices. This internal control procedure applies to and shall be complied with in each procurement of the Group. As the types of products to be procured from Jiangzhong Yishang within the Framework Purchases Agreement is relative generic in nature, the Company considers that it can obtain the prices of similar type of products from other Independent Third Party suppliers for comparison to ensure that the procurement prices from Jiangzhong Yishang are on normal commercial terms;
- (iv). the finance department of the Company will conduct monthly random checks to review and assess whether the transactions contemplated under the Framework Agreements are conducted on normal commercial terms, in accordance with the

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## LETTER FROM THE BOARD

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terms set out in the Framework Agreements and whether the relevant contract terms are in the interest of the Company and the Shareholders as a whole. In particular, the finance department of the Company will check whether the pricing basis has been properly followed;

- (v). the Company's external auditor will conduct an annual review of the transactions entered into under the Framework Agreements to ensure that the transactions amount is within the Annual Caps and the transactions are in accordance with the terms set out in the Framework Agreements; and
- (vi). the independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the Framework Agreements 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 Agreements will be conducted on normal commercial terms and within the Annual Caps, and not prejudicial to the interest of the Company and the Shareholders.

### **6. IMPLICATIONS UNDER LISTING RULES**

As at the Latest Practicable Date, Jiangzhong Yishang is a substantial shareholder (as defined under the Listing Rules) of the Company, holding 29,050,000 Domestic Shares (representing approximately 26.90% 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 Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company. Moreover, pursuant to Rule 14A.81 of the listing Rules, the transactions contemplated under the Framework Sales Agreement and the Framework Purchases Agreement should be aggregated.

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

No Director has a material interest in the Framework Agreements and was required to abstain from voting on the relevant board resolutions of the Company to approve the Framework Agreements and the transactions contemplated thereunder and the Annual Caps under the Articles of Association or the Listing Rules.

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## LETTER FROM THE BOARD

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An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on, among other things, whether or not the terms of the Framework Agreements and the Annual Caps are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned and whether the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group. Sorrento Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the Framework Agreements and the Annual Caps.

### 7. INFORMATION OF THE PARTIES

The Company is a joint-stock company incorporated in the PRC with limited liability, whose H 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 (3320.hk); and (iii) the remaining 59.0% by nine other minority shareholders. Based on the information available to the Company and to the best knowledge of the Directors, none of these nine minority shareholders individually controlled more than 20% shareholding of Jiangzhong Yishang.

### 8. 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 Tuesday, 31 May 2022 to Monday, 6 June 2022 (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 Company's H shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) or

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## LETTER FROM THE BOARD

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the headquarters in the PRC of the Company at No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, PRC (for holders of Domestic Shares) for registration no later than 4:30 p.m. on Monday, 30 May 2022. Shareholders whose names appear on the register of members of the Company at the close of business on Monday, 6 June 2022 are entitled to attend and vote at the EGM.

### 9. EGM

A notice convening the EGM to be held at the conference room, on 3rd floor, No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, PRC at 11:00 a.m. on Monday, 6 June 2022 or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, is set out on pages 38 to 40 of this circular.

As Jiangzhong Yishang is a substantial shareholder (as defined under the Listing Rules) of the Company, Jiangzhong Yishang and its associates (in respect of 29,050,000 Domestic Shares) will abstain from voting on the resolutions to approve the Framework Agreements and the Annual Caps at the EGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, other than Jiangzhong Yishang and its associates, no other connected person of the Company, Shareholders or their respective associate has a material interest in the transactions contemplated under the Framework Agreements 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 H shares of the Company, to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong and, for holders of domestic shares of the Company, to the headquarters in the PRC of the Company 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.

## **10. RECOMMENDATIONS**

The Directors (excluding the independent non-executive Directors whose opinions are given in the letter from the Independent Board Committee) consider that the terms of the Framework Agreements and the Annual Caps are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group. Accordingly, the Directors (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 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.

## **11. ADDITIONAL INFORMATION**

Your attention is drawn to (i) the letter from the Independent Board Committee on pages 15 to 16 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 17 to 31 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*

*\*For identification purpose only*



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)**

19 May 2022

*To the Independent Shareholders*

Dear Sir or Madam,

We refer to the circular of the Company dated 19 May 2022 (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 Agreements 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. Sorrento 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 Agreements 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 Agreements are entered into in the ordinary and usual course of business of the Company; and (ii) the Framework Agreements and their respective Annual Caps are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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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 Agreements and the Annual Caps.

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*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the letter of advice from Sorrento Capital Limited to the Independent Board Committee and the Independent Shareholders prepared in relation to the Framework Agreements for the purpose of inclusion in this circular.*



11/F,  
The Wellington,  
198 Wellington Street,  
Central,  
Hong Kong  
19 May 2022

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

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS IN RELATION TO ENTERING INTO FRAMEWORK SALES AGREEMENT AND FRAMEWORK PURCHASES AGREEMENT**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the sale and purchase of medicines, medical devices, healthcare products and food under the Framework Sales Agreement and Framework Purchases Agreement (“**Framework Agreements**”) together with their respective proposed annual caps for the three years ending 31 December 2024 (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 19 May 2022 (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 11 April 2022 (after trading hour), the Company and Jiangzhong Yishang, a substantial shareholder of the Company, have entered into the Framework Sales Agreement and the Framework Purchases Agreement, pursuant to which each of the Group and the Jiangzhong Yishang Group conditionally agreed to provide medicines, medical devices, healthcare products and food for which it acted as a Primary Distributor to each other.

## **IMPLICATION UNDER THE LISTING RULES**

As at the Latest Practicable Date, Jiangzhong Yishang is a substantial shareholder of the Company, holding 29,050,000 Domestic Shares (representing approximately 26.90% 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 Agreements and the transaction contemplated thereunder constitute continuing connected transactions of the Company. Moreover, pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the Framework Sales Agreement and the Framework Purchases Agreement should be aggregated.

As one or more of the applicable percentage ratios in respect of the Annual Caps for the Framework Sales Agreement and the Framework Purchases Agreement, both on its own and when aggregated, are expected to be higher than 5%, the Framework Agreements 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 Agreements 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, Sorrento 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 Agreements 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 Agreements and the transactions contemplated thereunder.

## **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 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 Agreements 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 H 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.

The table below sets forth a summary of the financial highlights of the Group for the three years ended 31 December 2021 as extracted from the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”) and the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”):

	<b>For the year ended 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
<b>Revenue</b>	3,492,783	3,991,711	3,793,618
<b>Net profit</b>	40,153	40,556	23,153

*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 years ended 31 December 2019 and 2020*

The total revenue of the Group increased from approximately RMB3,492.8 million for the year ended 31 December 2019 to approximately RMB3,991.7 million for the year ended 31 December 2020, representing an increase of approximately 14.3%. According to the 2020 Annual Report, the increase of total revenue of the Group was because of (i) the wholly-owned subsidiary Guangzhou Charmacy Pharmaceutical Co., Ltd. passed the initial cultivation period, and its income grew significantly as compared with the that in the same period in previous year, with its contribution to the operating income increased by RMB215.50 million; (ii) the wholly-owned subsidiary Guangdong Charmacy Pharmaceutical Co., Ltd. got its contribution to the operating income increased by RMB191.70 million; from the perspective of products' contribution to income, (i) the outbreak of COVID-19 pandemic led to an increase in sales of relevant products; (ii) the number of first-class medicine varieties was increased, the sales amount of first-level medicine varieties increased by RMB438.71 million as compared with that for the year ended 31 December 2020, among which RMB169.37 million were attributable to the newly-added first-level medicine varieties and the varieties which were upgraded to first-level medicine for the year ended 31 December 2021.

The net profit of the Group increased by approximately 1.00% to RMB40.6 million for the year ended 31 December 2020 from RMB40.2 million for the year ended 31 December 2019.

*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 江西省國有資本運營控股集團有限公司(Jiangxi State-Owned Capital Operation Holdings Group Co. Ltd\*), which is ultimately controlled by 江西省國有資產監督管理委員會(State-owned Assets Supervision and Administration Commission of Jiangxi Province\*); (ii) 20.5% by 華潤江中製藥集團有限責任公司(China Resources Jiangzhong Pharmaceutical Group Co., Ltd.\*), which is ultimately controlled by China Resources Pharmaceutical Group Limited, whose shares are listed on the main board of the Stock Exchange (3320.hk); and (iii) the remaining 59.0% by nine other minority shareholders. Based on the information available to the Company and to the best knowledge of the Directors, none of the nine other minority shareholders individually controlled more than 20% shareholding of Jiangzhong Yishang.

**2. Reasons and benefits for entering the Framework Agreements and the Annual Caps**

*Background of the Framework Agreements*

As stated in the Letter from the Board, Jiangzhong Yishang is a mixed-ownership state-controlled enterprise in Jiangxi Province. It has distribution channels consisting of more than 700 franchise pharmacies over five provinces in the PRC, namely Jiangxi, Shandong, Henan, Sichuan and Jiangsu. Leveraging its advantages in policies, resources and brand as a state-controlled enterprise, Jiangzhong Yishang strives to become a modern pharmaceutical business platform covering all channels, all classes, the whole industry chain and the nationwide market. To do this, it has been building a pharmaceutical business platform focusing on sales by providing specialised solutions for individual pharmacies, small or medium-sized franchise pharmacies and clinics (non-bidding markets) in China's counties and towns; meanwhile, it has been comprehensively expanding strategic business areas such as pharmaceutical production, modern intelligent logistics, third-party entrusted distribution, "internet plus finance" and "internet plus retail".

The Directors are of the view that (i) the Framework Sales Agreement enables the Group to obtain stable customers; and (ii) the Framework Purchases Agreement enables the Group to secure a stable source of the relevant products and onsell them in the ordinary course of business of the Group, thereby avoiding unnecessary disruption to the Group's operations.

According to 《“十四五”醫藥工業發展規劃》(14th Five-Year Plan for the Development of the Pharmaceutical Industry\*) jointly issued by Ministry of Industry and

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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 “**Plan**”), it proposes to make the industrial chain and supply chain to be stable and controllable and aims to improve and enhance the level of medicine capacity.

Having considered that (i) the sales and procurement form part of the daily operation of the Group; (ii) the support from the Plan; (iii) the Framework Sales Agreement does not restrict the Group to sell the products to other independent customers; and (iv) the Framework Purchases Agreement does not restrict the Group to purchase the products from other independent suppliers, we concur with the Directors’ view that the entering into the Framework Agreements are 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 Agreements and the Annual Caps**

#### 1. The Framework Sales Agreement

##### *Annual caps and its basis of determination*

A summary of the proposed annual caps under the Framework Sales Agreement for the three years ending 31 December 2024 are set out in the table below:

	<b>Financial year ending 31 December</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
For the transactions contemplated under the Framework Sales Agreement	160	200	230

As stated in the Letter from the Board, the proposed annual caps for the three years ending 31 December 2024 under the Framework Sales Agreement acts determined after considering, among other things, (i) the expected demand of medicines, medical devices, healthcare products and food supplied by the Group from the Jiangzhong Yishang Group for which the Group acts as a Primary

Distributor; (ii) the expected increase in such demand attributable to the favourable macroeconomic and market environment; and (iii) a reasonable buffer for an upward adjustments (including due to inflation or otherwise).

As advised by the management of the Company, there will be some sales transactions of approximately RMB5 million to be entered into between the Group and the Jiangzhong Yishang Group and the sales transactions mainly include the products sales for western medicines. In addition, there are potential sales transaction of approximately RMB12 million under negotiation and the Group expect that there will be further sales of approximately RMB110 million for the six months ending 31 December 2022. As such, the transaction amount for the year ending 31 December 2022 is expected to be approximately RMB160 million, including a buffer of 20%.

As advised by the management of the Company, the increment of approximately 20% on the annual caps for the two years ending 31 December 2024 is due to the business expansion of Jiangzhong Yishang including expansion on strategic business areas and they expect to purchase more western medicines from the Group for the two years ending 31 December 2024.

Having taken into consideration of the above, in particular, (i) annualized proposed transaction amount for the year ending 31 December 2022; and (ii) business expansion of Jiangzhong Yishang, we are of the view that the proposed annual caps under the Framework Sales 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.

We have discussed with the management of the Company and note that in order to ensure that the prices and terms offered to the Jiangzhong Yishang Group are on normal commercial terms and no less favourable to the Group than terms offered available to or from the Independent Third Parties, the Group will determine the prevailing market prices for the products after considering through (i) the market conditions at the relevant time; (ii) the size of orders and the technical conditions; and (iii) the relevant costs and prices offered to Independent Third Party customers, and in any event shall be comparable to those offered by the Group to Independent Third Party customers.

For our due diligence purpose, we have obtained and reviewed 10 samples contracts entered into between the Group and the Independent Third Parties selected on a random basis from the list of customers of the western medicines during the period from 1 January 2022 to 11 April 2022. Given that (i) the aforesaid samples are obtained on random basis; and (ii) the samples we obtained are consistent and

did not demonstrate any discrepancy to our understandings on the sales arrangement of the western medicines between the Group and the Jiangzhong Yishang Group, we are of the view that those samples are sufficient for us to assess the arrangement of the sales of the western medicines to Jiangzhong Yishang Group.

On the basis of our review, we note that (i) the terms of the Framework Sales Arrangement as reviewed by us were in line with the transaction terms between the Group and other customers of the western medicines which are Independent Third Parties; (ii) the price of the western medicines were in line with the prevailing market price of the western medicines, and (iii) such sales were on normal commercial terms when compared with the terms offered to other customers of the western medicines which are Independent Third Parties. In addition, various internal control measures will be put in place within the Group to ensure compliance with the terms under the Framework Sales Agreement (as further discussed in the section headed “Internal control measures within the Group” below). As such, we are of the view that the terms of the Framework Sales Agreement and the continuing connected transactions contemplated thereunder are on normal commercial terms and are fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of the medicines, medical devices, healthcare products and food to be provided to Jiangzhong Yishang Group under the Framework Sales Agreement. Consequently, we express no opinion as to how closely the actual medicines, medical devices, healthcare products and food to be provided to Jiangzhong Yishang Group under the Framework Sales Agreement will correspond with the respective proposed annual caps.

## 2. The Framework Purchases Agreement

### *Annual caps and its basis of determination*

A summary of the proposed annual caps under the Framework Purchases Agreement for the three years ending 31 December 2024 are set out in the table below:

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	<b>Financial year ending 31 December</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
For the transactions contemplated under the Framework Purchases Agreement	160	240	320

As stated in the Letter from the Board, the proposed annual caps for the three year ending 31 December 2024 under the Framework Purchases Agreement are determined after considering, among other things, (i) the expected sales of medicines, medical devices, healthcare products and food supplied by the Jiangzhong Yishang Group of which the Jiangzhong Yishang Group acts as a Primary Distributor; (ii) the historical business growth of the Group; (iii) the potential business growth of the Group attributable to the macroeconomic and market environment; and (iv) a reasonable buffer for an upward adjustments (including due to inflation or otherwise).

In assessing the reasonableness and fairness of the proposed annual caps for the three years ending 31 December 2024 under the Framework Purchases Agreement, we have discussed with the management of the Company and note that there will be some procurement transactions of approximately RMB5.5 million to be entered into between the Group and the Jiangzhong Yishang Group and the procurement transactions mainly include the products purchase for Chinese patent medicines. In addition, there are potential procurement transaction of approximately RMB8 million under negotiation and the Group expect that they will have further procurement of approximately RMB115 million for the six months ending 31 December 2022 due to the increasing distribution network. As such, the transaction amount for the year ending 31 December 2022 is expected to be approximately RMB160 million, including a buffer of 20%.

As advised by the management of the Company, the increment of approximately 40% for the two years ending 31 December 2024 is mainly due to expansion on the pharmaceutical products line on the existing distribution network. According to the interim report of the Group for the six months ended 30 June 2021, the Group followed the operation target set and continued to explore Guangdong market in depth and radiating to surrounding areas, with a focus on developing business with retail end-customers. As at 31 December 2021, the Group's distribution network covered 12,625 customers which is an increase from 10,639 customers as at 30 June 2021, representing an increase of approximately 18.7% in

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six months. Taking into account of (i) the Group's continuing expansion in Guangdong market and surrounding areas and the development of retail end-customers; and (ii) an increase in the Group's distribution network of approximately 18.7% in six months from 30 June 2021 to 31 December 2021, the Group expects that their distribution network will have an annual increase of approximately 40% and their purchases will be increased accordingly.

Having taken into consideration of the above, we are of the view that the proposed annual caps for the three years ending 31 December 2024 under the Framework Purchases Agreement are fairly determined and are fair and reasonable.

We have discussed with the management of the Company and note that in order to ensure that the prices and terms offered to the Jiangzhong Yishang Group are on normal commercial terms and no less favourable to the Group than terms offered available to or from the Independent Third Parties, the Group will determine the prevailing market prices for the products after considering through (i) the market conditions at the relevant time; (ii) the size of orders and the technical conditions; and (iii) all other purchases from Independent Third Party suppliers and in any event shall be comparable to those offered to the Group by Independent Third Party suppliers.

For our due diligence purpose, we have obtained and reviewed 10 samples contracts entered into between the Group and the Independent Third Parties selected on a random basis from the list of suppliers of the Chinese patent medicines during the period from 1 January 2022 to 11 April 2022. Given that (i) the aforesaid samples are obtained on random basis; and (ii) the samples we obtained are consistent and did not demonstrate any discrepancy to our understandings on the procurement arrangement of the Chinese patent medicines between the Group and the Jiangzhong Yishang Group, we are of the view that those samples are sufficient for us to assess the arrangement of the purchases of the Chinese patent medicines to the Jiangzhong Yishang Group.

On the basis of our review, we note that (i) the terms of the Framework Purchases Arrangement as reviewed by us were in line with the transaction terms between the Group and other suppliers of the Chinese patent medicines which are Independent Third Parties; (ii) the price of the Chinese patent medicines were in line with the prevailing market price of the Chinese patent medicines, and (iii) such purchases were on normal commercial terms when compared with the terms offered to other suppliers of the Chinese patent medicines which are Independent Third Parties. In addition, various internal control measures will be put in place within the Group to ensure compliance with the terms under the Framework Purchases Agreement (as further discussed in the section headed "Internal control measures

within the Group” below). As such, we are of the view that the terms of the Framework Purchases Agreement and the continuing connected transactions contemplated thereunder are on normal commercial terms and are fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of the medicines, medical devices, healthcare products and food to be purchased from the Jiangzhong Yishang Group under the Framework Purchases Agreement. Consequently, we express no opinion as to how closely the actual medicines, medical devices, healthcare products and food to be purchased from the Jiangzhong Yishang Group under the Framework Purchases Agreement will correspond with the respective proposed annual caps.

#### **4. Internal control measures within the Group**

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

- (i) the finance department of the Company will closely monitor the transactions under the Framework Agreements to ensure that the transactions amount will not exceed the Annual Caps;
- (ii) the sales department of the Group shall price the products with its costs as a benchmark, upon which the Group shall determine the final prices for sale to the Jiangzhong Yishang Group by comparing against quotations or prices offered by the Group to at least two Independent Third Party customers recorded in the internal database of the Group which contains information of selling prices of all previous sales transactions of the Group. The final prices must be finally approved by the head of product management department of the Company. This internal control procedure applies to and shall be complied with in each sales of the Group;
- (iii) the procurement department of the Group shall determine whether to accept the procurement prices offered by the Jiangzhong Yishang Group by comparing the quotations or prices offered by the Jiangzhong Yishang Group to quotations of at least two Independent Third Party suppliers obtained by the personnel of product management department of the Company. The manager of the procurement department together with the head of product management department of the Company will jointly approve the final procurement prices. This internal control

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procedure applies to and shall be complied with in each procurement of the Group. As the types of products to be procured from Jiangzhong Yishang within the Framework Purchases Agreement is relative generic in nature, the Company considers that it can obtain the prices of similar type of products from other Independent Third Party suppliers for comparison to ensure that the procurement prices from Jiangzhong Yishang are on normal commercial terms;

- (iv) the finance department of the Company will conduct monthly random checks to review and assess whether the transactions contemplated under the Framework Agreements are conducted on normal commercial terms, in accordance with the terms set out in the Framework Agreements and whether the relevant contract terms are in the interest of the Company and the Shareholders as a whole. In particular, the finance department of the Company will check whether the pricing basis has been properly followed;
- (v) the Company's external auditor will conduct an annual review of the transactions entered into under the Framework Agreements to ensure that the transactions amount is within the Annual Caps and the transactions are in accordance with the terms set out in the Framework Agreements; and
- (vi) the independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the Framework Agreements 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 finance department of the Company monitors the cumulative actual transaction amounts against the approved annual caps to ensure the compliance of the pricing terms and policy; (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 pricing terms and policy under the Framework Agreements against the relevant 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 random samples of transaction records between the Group and the Independent Third Parties, reviewed by us are consistent with the relevant internal control measures as aforementioned; and (iii) the Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders of the transactions.

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By considering (i) the prices of sales transactions are to be compared with the database of the Group and the final prices must be finally approved by the head of product management department and the prices of purchases transactions are to be obtained by the personnel of product management department and the final prices will be jointly approved by the head of product management department and the manager of the procurement department to ensure such transactions are conducted on normal commercial conditions or more favourable terms; (ii) the finance department of the Company will conduct monthly random checks to review and assess whether the transactions contemplated under the Framework Agreements are conducted on normal commercial terms, in accordance with the terms set out in the Framework Agreements and whether the relevant contract terms are in the interest of the Company and the Shareholders as a whole. In particular, the finance department will check whether the pricing basis have been properly followed; and (iii) the Company's independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the Framework Agreements to ensure that the Company has complied with its internal approval process, we consider that the internal control of the Company is sufficient in place to ensure that the pricing of both sales and purchases transaction between the Company and the Jiangzhong Yishang Group would be on normal commercial terms.

In view of the above, we consider that the internal control manual, if implemented effectively by the Group, are sufficient to safeguard Shareholders' interest in conducting the Framework Agreements 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.

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**RECOMMENDATION**

Having considered the principal factors and reasons as discussed above, we are of the view that (i) the Framework Agreements are entered into in the ordinary and usual course of business of the Company; and (ii) the Framework Agreements and their 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.

Yours faithfully,  
For and on behalf of  
**Sorrento Capital Limited**

**Aaron Wong**

*Managing Director*

**Stanley Chung**

*Managing Director*

*Note:*

*Mr. Aaron Wong is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than eight years of experience in corporate finance and investment banking. 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. Both Mr. Aaron Wong and 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. Interest of Directors and chief executives

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 were as follows:

Name of Director	Capacity/ Nature of interest	Class and number of Shares	Approximate shareholding percentage in the relevant class of Shares <sup>(1)</sup>	Approximate shareholding percentage of the total issued share capital <sup>(2)</sup>
Mr. Yao Chuanglong	Beneficial owner	44,250,000 Domestic Shares (L)	55.31%	40.97%

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 80,000,000 domestic shares in issue of the Company as at the Latest Practicable Date.

(2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at the Latest Practicable Date.

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. Interest 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/ Nature of interest	of	Class of number Shares	and of	Approximate shareholding percentage in the relevant class of Shares <sup>(1)</sup>	Approximate shareholding percentage of the total issued share capital <sup>(2)</sup>
Ms. You Zeyan	Interest spouse	of	44,250,000 Domestic Shares (L) <sup>(3)(4)</sup>		55.31%	40.97%
Jiangzhong Yishang	Beneficial owner		29,050,000 Domestic Shares (L)		36.31%	26.90%
	Security interest		3,000,000 Domestic Shares (L) <sup>(4)</sup>		3.75%	2.77%
Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited	Beneficial owner		7,906,500 H Shares (L) <sup>(5)</sup>		28.24%	7.32%
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited	Interest in controlled corporation	in	7,906,500 H Shares (L) <sup>(5)</sup>		28.24%	7.32%
Guangzhou	Interest in	in	7,906,500		28.24%	7.32%

Pharmaceutical Holdings Limited	controlled corporation	H Shares (L) <sup>(5)</sup>			
RAYS Capital Partners Limited	Investment manager	5,534,000 H Shares (L) <sup>(6)</sup>	19.76%	5.12%	
RUAN Ching Chi	David Interest in controlled corporation	5,534,000 H Shares (L) <sup>(6)</sup>	19.76%	5.12%	
Asian Special Opportunities Portfolio Master Fund Limited	Equity Beneficial owner	5,534,000 H Shares (L) <sup>(6)</sup>	18.32%	4.75%	
Mr. Wang Yonghui	Beneficial owner	3,488,000 H Shares (L)	12.46%	3.23%	
Kingworld Medicines Health Management Limited	Beneficial owner	2,302,000 H Shares (L) <sup>(7)</sup>	8.22%	2.13%	
Kingworld Medicines Group Limited	Interest in controlled corporation	2,302,000 H Shares (L) <sup>(7)</sup>	8.22%	2.13%	

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 80,000,000 domestic shares in issue and the total number of 28,000,000 H shares in issue of the Company as at the Latest Practicable Date.
- (2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at the Latest Practicable Date.
- (3) 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 under the SFO.
- (4) The 3,000,000 Domestic Shares over which Jiangzhong Yishang has security interest represents the Shares pledged by Mr. Yao Chuanglong in favour of Jiangzhong Yishang.
- (5) These shares are held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited. As 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 45.23%. 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.

- (6) These shares are held by Asian Equity Special Opportunities Portfolio Master Fund Limited. Since Asian Equity Special Opportunities Portfolio Master Fund Limited is a wholly-owned subsidiary of RAYS Capital Partners Limited and 95.24% interest of RAYS Capital Partners Limited is held by Ms. RUAN David Ching Chi, RAYS Capital Partners Limited and RUAN David Ching Chi are deemed to be interested in the shares of the Company held by Asian Equity Special Opportunities Portfolio Master Fund Limited.
- (7) These shares are held by Kingworld Medicines Health Management Limited. As Kingworld Medicines Health Management Limited is a wholly-owned subsidiary of Kingworld Medicines Group Limited, Kingworld Medicines Group Limited is deemed to be interested in the shares of the Company held by Kingworld Medicines Health Management Limited.

Save as disclosed herein, 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. DIRECTORS' 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 were 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 as a whole 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:

<b>Name</b>	<b>Qualification</b>
Sorrento 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, Sorrento 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, Sorrento 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.

Sorrento 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 19 May 2022 and was made by Sorrento Capital Limited for incorporation in this circular.

#### **7. DIRECTORS' 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. DIRECTORS' COMPETING INTERESTS**

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors was interested in any business which competed, or was likely to compete, either directly or indirectly, with the businesses of the Group.

#### **9. MISCELLANEOUS**

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

**10. 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 Sales Agreement;
- (ii) the Framework Purchases Agreement;
- (iii) the letter from the Independent Board Committee, the text of which is set out on pages 15 to 16 of this circular;
- (iv) the letter from the Independent Financial Adviser, the text of which is set out on pages 17 to 31 of this circular;
- (v) the written consent of Sorrento Capital Limited referred to in paragraph 6 of this Appendix; and
- (vi) this circular.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)**

## 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 3rd floor, No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People’s Republic of China (the “**PRC**”) at 11:00 a.m. on 6 June 2022 or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, for the purpose of considering, and if thought fit, passing (with or without amendments) the following resolutions:

### Ordinary Resolutions

1. “THAT the framework contract dated 11 April 2022 (the “**Framework Sales Agreement**”) entered into between the Company and Jiangxi Jiangzhong Yishang Operation Co., Ltd.\* (江西江中醫藥商業運營有限責任公司) (“**Jiangxi Yishang**”) for the sales of medicines, medical devices, healthcare products and food for which the Company and its subsidiaries (the “**Group**”) act as a distributor which purchase products directly from pharmaceutical manufacturers or their pharmaceutical distributor companies (regardless of whether it has obtained an exclusive distribution right or not) (the “**Primary Distributor**”) to Jiangxi Yishang and its subsidiaries (the “**Jiangxi Yishang Group**”) and the proposed annual caps for the transactions contemplated thereunder, be and are hereby approved and confirmed”;
2. “THAT the framework contract dated 11 April 2022 (the “**Framework Purchases Agreement**”) entered into between the Company and Jiangxi Yishang for the purchase of medicines, medical devices, healthcare products and food for which the Jiangzhong Yishang Group acts as a Primary Distributor from the Jiangzhong Yishang Group and the proposed annual caps for the transactions contemplated thereunder, be and are hereby approved and confirmed”; and
3. “THAT any one director of the Company be and is hereby authorised to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to 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 Agreements and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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

Shantou, the PRC, 19 May 2022

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 Tuesday, 31 May 2022 to Monday, 6 June 2022 (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 Company's H shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares of the Company) or the headquarters in the PRC of the Company at No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the PRC (for holders of domestic shares of the Company) for registration not later than 4:30 p.m. on Monday, 30 May 2022.
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, for holders of H shares of the Company, to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong and, for holders of domestic shares of the Company, to the headquarters in the PRC of the Company at No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, PRC not less than 24 hours before the time for holding the EGM (i.e. not later than 11:00 a.m. on Sunday, 5 June 2022) (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 and class 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.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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6. In case of joint holders of any share, 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.

*As at the date of this notice, the executive Directors are Mr. Yao Chuanglong and Ms. Zheng Yuyan; the non-executive Director is Mr. Li Weisheng; 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*