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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 incorporated in the People's Republic of China)

(Stock Code: 2289)

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RELATION
TO FRAMEWORK SALES AGREEMENT AND FRAMEWORK PURCHASE
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**

A letter from the Board is set out on pages 4 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 2nd Floor, No. 33, Liyu Street, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, PRC at 3:00 p.m. on Friday, 27 December 2024, is set out on pages 31 to 32 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 17M Floor Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not less than 24 hours (i.e. not later than 3:00 p.m. on Thursday, 26 December 2024) 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.

9 December 2024

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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. Xu Fei, Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi, who have abstained from voting on the Board resolutions to approve the New Framework Agreements and the Annual Caps
“Annual Caps”	the proposed maximum annual aggregate transaction values in respect of the transactions contemplated under the New Framework Sales Agreement and/or the New Framework Purchase Agreement for the three years ending 31 December 2027, as the case may be
“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 Stock Exchange (stock code: 2289)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“EGM”	the extraordinary general meeting of the Company to be convened and held on Friday, 27 December 2024 at 3:00 p.m. at the conference room, on the 2nd floor, No. 33 Liyu Street, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, PRC and any adjournment thereof
“Existing Framework Agreements”	the Existing Framework Sales Agreement and the Existing Framework Purchase Agreement
“Existing Framework Purchase Agreement”	the framework agreement dated 11 April 2022 entered into between the Company and Jiangyao for the purchase of medicines, medical devices, healthcare products and food for which Jiangyao Group acted as a Primary Distributor from Jiangyao Group
“Existing Framework Sales Agreement”	the framework agreement dated 11 April 2022 entered into between the Company and Jiangyao for the sales of medicines, medical devices, healthcare products and food for which the Group acted as a Primary Distributor to Jiangyao 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

DEFINITIONS

“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. Li Hanguo, Mr. Wan Chi Wai Anthony 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 New Framework Agreements
“Independent Shareholders”	the Shareholders other than Jiangyao and its associates, who, if they hold Shares, are required to abstain from voting on the resolutions to approve the New 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
“Jiangyao”	Jiangyao Group Co., Ltd* (江藥集團有限公司) (formerly known as Jiangxi Jiangzhong Yishang 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
“Jiangyao Group”	Jiangyao and its subsidiaries
“Latest Practicable Date”	6 December 2024, being the latest practicable date prior to the publication of this circular for ascertaining certain information containing herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended, modified or otherwise supplemental from time to time
“New Framework Agreements”	the New Framework Sales Agreement and the New Framework Purchase Agreement
“New Framework Purchase Agreement”	the framework agreement dated 8 November 2024 entered into between the Company and Jiangyao for the purchase of medicines, medical devices, healthcare products and food for which Jiangyao Group acts as a Primary Distributor from Jiangyao Group
“New Framework Sales Agreement”	the framework agreement dated 8 November 2024 entered into between the Company and Jiangyao for the sales of medicines, medical devices, healthcare products and food for which the Group acts as a Primary Distributor to Jiangyao Group

DEFINITIONS

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

**For identification purpose only*

LETTER FROM THE BOARD



創美·CH'MEI

Charmacy Pharmaceutical Co., Ltd.

創美藥業股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)
(Stock Code: 2289)

Executive Directors:

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

Non-executive Directors:

Mr. Yan Jingbin (*Chairman*)
Ms. Fu Zheng
Mr. Xu Fei

Independent non-executive Directors:

Mr. Li Hanguo
Mr. Wan Chi Wai Anthony
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, the PRC

Principal Place of

Business in Hong Kong:

40th Floor, Dah Sing Financial Centre
248 Queen's Road East, Wanchai,
Hong Kong

9 December 2024

To the Shareholders

Dear Sir or Madam,

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

1. INTRODUCTION

Reference is made to the Company's announcement dated 8 November 2024 in respect of, among other things, (i) the New Framework Sales Agreement and (ii) the New Framework Purchase Agreement.

The purpose of this circular is to provide the Shareholders with information on, among other things, (i) the New 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 New Framework Agreements; (iii) the recommendations from the Independent Board Committee in respect of the New Framework Agreements; and (iv) a notice convening the EGM.

LETTER FROM THE BOARD

2. CONTINUING CONNECTED TRANSACTIONS

NEW FRAMEWORK SALES AGREEMENT

Date	8 November 2024
Parties	The Company, as seller Jiangyao, as purchaser
Effective period	From 1 January 2025 to 31 December 2027
Subject Matter	<p>Any member of the Group may from time to time within the ambit of the New Framework Sales Agreement enter into individual implementation agreements with any members of Jiangyao 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 New Framework Sales Agreement.</p>
Pricing basis	<p>The prices of the products shall be agreed and stated in the implementation agreements after arm's length negotiation between the Group and Jiangyao 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 comparable to those offered by the Group to customers which are Independent Third Parties.</p>
Payment arrangement	<p>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 customers which are Independent Third Parties.</p>
Condition precedent	<p>The New Framework Sales Agreement is conditional upon the Independent Shareholders approving it and the transactions contemplated thereunder and the Annual Caps.</p>

The following table sets out the historical transaction amounts and the utilisation rates of the

LETTER FROM THE BOARD

annual caps for the transactions under the Existing Framework Sales Agreement for each of the years ended 31 December 2022 and 2023, and for the 11 months ended 30 November 2024:

	For the year ended 31 December		For the 11 months ended 30 November
	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Historical transaction amount	Nil	Nil	20.1
Approved annual cap	160	200	230
Utilisation rate (%)	N/A	N/A	9.5 ^(Note)

Note: The utilisation rate is calculated by dividing the actual transaction amount for the 11 months ended 30 November 2024 by the pro-rata 11-month portion of the approved annual cap for illustration purposes. The 11-month pro-rata annual cap in 2024 under the Existing Framework Sales Agreement is approximately RMB210.8 million.

The utilisation rates of annual caps for the years ended 31 December 2022 and 2023 had been nil because no order had been placed with the Group by Jiangyao Group in 2022 and 2023. According to Jiangyao, at that time, they did not have relevant demand for the products the Group offered. In 2024, Jiangyao started to purchase a limited range of products the Group offered. As a result, the utilisation rate of annual cap for the year ending 31 December 2024 was relatively low.

The following table sets out the Annual Caps under the New Framework Sales Agreement:

	For the year ending 31 December		
	2025	2026	2027
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Annual Caps	40	50	65

The Annual Caps were determined after considering, among other things:

- (i) the historical sales amount in 2024, the historical approved annual caps and the relatively low utilisation from 2022 to 2024;
- (ii) the expected increase in the demand of medicines, medical devices, healthcare products and food supplied by the Group from Jiangyao Group for which the Group acts as a Primary Distributor. Despite the lack of historical trend of transaction amount, the Directors anticipated an increase in demand for products supplied by our Group from Jiangyao Group, stemming from the growth of revenue of Jiangyao Group of 40% from 2022 to 2023;
- (iii) the expected demand for the direct purchase volume of brand pharmaceutical manufacturers as the Group actively expands the pharmaceutical terminal business;
- (iv) the expected increase in such demand attributable to the favourable macroeconomic and market environment, driven by, among other things, aging population, the rising awareness of

LETTER FROM THE BOARD

health and wellness among the public and the regulatory reform in the healthcare sector in China. According to the “Report on the Digital Transformation of China’s Outpatient Pharmaceutical Industry 2023”* (《2023年中國院外醫藥產業數位化轉型研究報告》) published by iResearch Consulting Group, the pharmaceutical distribution market in China has grown rapidly in recent years. The outpatient pharmaceutical market has become increasingly competitive and has significant growth potential. It is projected that by 2027, the size of the outpatient pharmaceutical market in China will exceed RMB1 trillion, representing 47.1% of the overall pharmaceutical distribution industry; and

(v) a reasonable buffer to maintain flexibility for an upward adjustment (including due to inflation, unforeseen epidemics or otherwise).

In light of the above factors, the Board considers that the Annual Caps is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

NEW FRAMEWORK PURCHASE AGREEMENT

Date	8 November 2024
Parties	The Company, as purchaser
	Jiangyao, as seller
Effective period	From 1 January 2025 to 31 December 2027
Subject Matter	Any member of the Group may from time to time within the ambit of the New Framework Purchase Agreement enter into individual implementation agreements with any members of Jiangyao Group for the purchase of medicines, medical devices, healthcare products and food for which Jiangyao Group acts as a Primary Distributor.
	Any such implementation agreements shall not contravene the provisions of the New Framework Purchase Agreement.
Pricing basis	The prices of the products shall be agreed and stated in the implementation agreements after arm’s length negotiation between the Group and Jiangyao 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 suppliers which are Independent Third Parties.
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 suppliers which are Independent Third Parties.

LETTER FROM THE BOARD

Condition precedent The New Framework Purchase Agreement is conditional upon the Independent Shareholders approving it and the transactions contemplated thereunder and the Annual Caps.

The following table sets out the historical transaction amounts and the utilisation rates of the annual caps for the transactions under the Existing Framework Purchase Agreement for each of the years ended 31 December 2022 and 2023, and for the 11 months ended 30 November 2024:

	For the year ended 31 December		For the 11 months ended 30 November
	2022	2023	2024
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Historical transaction amount	21.5	61.0	108.5
Approved annual cap	160	240	320 ^(Note)
Utilisation rate (%)	13.4	25.4	37.0 ^(Note)

Note: The utilisation rate is calculated by dividing the actual transaction amount for the 11 months ended 30 November 2024 by the pro-rata 11-month portion of the approved annual cap for illustration purposes. The 11-month pro-rata annual cap in 2024 under the Existing Framework Purchase Agreement is approximately RMB293.3 million.

The relatively low utilisation rates of annual caps for the years ended 31 December 2022 and 2023 was mainly due to the unexpected prolonged COVID-19 pandemics in 2022 and 2023 leading to the prolonged pharmaceutical sales restriction policies in Guangdong province. With the easing of such restrictions since 2023, coupled with the expansion of product offerings by Jiangyao Group, the Group's purchase from Jiangyao Group increased in 2024.

The following table sets out the Annual Caps under the New Framework Purchase Agreement:

	For the year ending 31 December		
	2025	2026	2027
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Annual Caps	180	220	270

The Annual Caps were determined after considering, among other things:

- (i) the historical purchase amount and its growth rate from 2022 to 2024, the historical approved annual caps and the relatively low utilisation from 2022 to 2024;
- (ii) the expected increase in the sales volume of medicines, medical devices, healthcare products

LETTER FROM THE BOARD

and food supplied by Jiangyao Group of which Jiangyao Group acts as a Primary Distributor, leveraging on the resource advantages of the Group's three-dimensional marketing network and the efficient logistics mechanism;

(iii) the historical business growth of the Group;

(iv) the potential business growth of the Group attributable to the macroeconomic and market environment, driven by, among other things, aging population, the rising awareness of health and wellness among the public and the regulatory reform in the healthcare sector in China. According to the "Report on the Digital Transformation of China's Outpatient Pharmaceutical Industry 2023"* (《2023年中國院外醫藥產業數字化轉型研究報告》) published by iResearch Consulting Group, the pharmaceutical distribution market in China has grown rapidly in recent years. The outpatient pharmaceutical market has become increasingly competitive and has significant growth potential. It is projected that by 2027, the size of the outpatient pharmaceutical market in China will exceed RMB1 trillion, representing 47.1% of the overall pharmaceutical distribution industry; and

(v) a reasonable buffer to maintain flexibility for an upward adjustment (including due to inflation, unforeseen epidemics or otherwise).

In light of the above factors, the Board considers that the Annual Caps is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW FRAMEWORK AGREEMENTS

Jiangyao is a mixed-ownership state-controlled enterprise in Jiangxi Province. It has distribution channels consisting of more than 700 franchise pharmacies over seven provinces in the PRC, namely Jiangxi, Shandong, Henan, Sichuan, Hebei, Jiangsu and Guangdong. Leveraging its advantages in policies, resources and brand as a state-controlled enterprise, Jiangyao 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 New 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 New Framework Purchase Agreement enables the Group to secure a stable source of the relevant products and on-sell them in the ordinary course of business of the Group, so as to enrich the Group's product portfolio.

4. INTERNAL CONTROL

In order to ensure the terms of the New 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 to or by 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 New 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 sales to Jiangyao Group by comparing against quotations or prices offered by the Group to at least two customers which are 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 decide whether to accept the procurement prices offered by Jiangyao Group by comparing the quotations or prices offered by Jiangyao Group to the 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 Jiangyao Group within the New Framework Purchase 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 Jiangyao Group 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 New Framework Agreements are conducted on normal commercial terms or better, in accordance with the terms set out in the New 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 has been properly followed;

(v) the Company's external auditor will conduct an annual review of the transactions entered into under the New Framework Agreements to ensure that the transactions amount is within the Annual Caps and the transactions are conducted in accordance with the terms set out in the New Framework Agreements; and

LETTER FROM THE BOARD

(vi) the independent non-executive Directors will conduct an annual review of the status of the transactions entered into pursuant to the New 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 New Framework Agreements will be conducted on normal commercial terms or better and within the Annual Caps, and not prejudicial to the interest of the Company and its Shareholders.

5. IMPLICATIONS UNDER LISTING RULES

As at the Latest Practicable Date, Jiangyao is a controlling shareholder of the Company, interested in 51,470,000 H Shares, representing approximately 47.66% of the total issued share capital of the Company. Pursuant to the Listing Rules, Jiangyao is a connected person of the Company. Accordingly, the New 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 New Framework Sales Agreement and the New Framework Purchase Agreement should be aggregated.

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

Mr. Yan Jingbin, Ms. Fu Zheng and Mr. Xu Fei are considered to have material interests by virtue of their employment and senior management in Jiangyao Group. In addition, pursuant to the board level irrevocable undertaking dated 13 September 2022 executed by Mr. Yao 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 Jiangyao 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 Jiangyao are required to abstain. Accordingly, the Abstained Directors have abstained from voting on the Board resolutions to approve the New Framework Agreements and the Annual Caps.

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 New 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

LETTER FROM THE BOARD

whether the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group. Kingsway Capital Limited has been appointed as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders regarding the New Framework Agreements and the Annual Caps.

6. 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.

Jiangyao 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) 30.50% by Jiangxi State Capital Operation Holding Group Co., Ltd.* (江西省國有資本運營控股集團有限公司) and its subsidiary Jiangxi State Holding Capital Co., Ltd.* (江西國控資本有限公司), 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) and (ii) 69.50% by seventeen minority shareholders. Based on the information available to the Company and to the best knowledge of the Directors, none of the seventeen minority shareholders individually controlled more than 20% shareholding of Jiangyao.

7. 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, 24 December 2024 to Friday, 27 December 2024 (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 shares 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 Monday, 23 December 2024. Shareholders whose names appear on the register of members of the Company at the close of business on Friday, 27 December 2024 are entitled to attend and vote at the EGM.

8. EGM

A notice convening the EGM to be held at the conference room, on 2nd Floor, No. 33, Liyu Street, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, PRC at 3:00 p.m. on Friday, 27 December 2024 is set out on pages 31 to 32 of this circular.

LETTER FROM THE BOARD

As Jiangyao is a connected person, Jiangyao and its associates will abstain from voting on the resolutions to approve the New 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 Jiangyao 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 New 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 Shareholders, to the 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 not less than 24 hours (i.e. no later than 3:00 p.m. on Thursday, 26 December 2024) 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.

9. RECOMMENDATIONS

The Directors (including the independent non-executive Directors whose opinions are given in the letter from the Independent Board Committee) consider that the terms of the New 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.

10. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee on pages 15 of this circular containing the recommendation of the Independent Board Committee to the Independent

LETTER FROM THE BOARD

Shareholders; and (ii) the letter from the Independent Financial Adviser on pages 16 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.

Yan Jingbin

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



創美·CH'MEI

Charmacy Pharmaceutical Co., Ltd.

創美藥業股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)

(Stock Code: 2289)

9 December 2024

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 9 December 2024 (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 New 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. 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 New 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 that (i) the New Framework Agreements are entered into in the ordinary and usual course of business of the Company; and (ii) the New 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 the
Independent Board Committee of
Charmacy Pharmaceutical Co., Ltd.
Li Hanguo
Wan Chi Wai Anthony
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 to the Independent Board Committee and the Independent Shareholders prepared related to the continuing connected transactions for the purpose of inclusion in this circular.*



9 December 2024

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

Dear Sirs,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
FRAMEWORK SALES AGREEMENT
AND
FRAMEWORK PURCHASE 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 New Framework Sales Agreement and New Framework Purchase Agreement (“**New Framework Agreements**”) together with their respective proposed annual caps for the three years ending 31 December 2027 (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 9 December 2024 (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, the Existing Framework Agreements will expire on 31 December 2024 and it is expected that the Group will continue to enter into similar transactions contemplated under the Existing Framework Agreements from time to time thereafter. Accordingly, on 8 November 2024 (after trading hour), the Company and Jiangyao have entered into the New Framework Sales Agreement and the New Framework Purchase Agreement, pursuant to which each of the Group and Jiangyao conditionally agreed to provide medicines, medical devices, healthcare products and food for which it acts as a Primary Distributor to each other.

IMPLICATION UNDER THE LISTING RULES

As at the Latest Practicable Date, Jiangyao is a controlling shareholder of the Company, interested in 51,470,000 H Shares, representing approximately 47.66% of the total issued share capital of the Company. Pursuant to the Listing Rules, Jiangyao is a connected person of the Company. Accordingly, the New Framework Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company. Moreover, pursuant to Rule 14A.81

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of the Listing Rules, the transactions contemplated under the New Framework Sales Agreement and the New Framework Purchase Agreement should be aggregated.

As one or more of the applicable percentage ratios in respect of the Annual Caps for the New Framework Sales Agreement and the New Framework Purchase Agreement, both on its own and when aggregated, are expected to be higher than 5%, the New 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. Li Hanguo, Mr. Wan Chi Wai Anthony and Mr. Guan Jian (also known as Guan Suzhe) (all being the independent non-executive Directors), has been established to advise the Independent Shareholders as to whether (i) the terms of the New 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, 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 New 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. Within the two years prior to the Latest Practicable Date, we have acted as independent financial adviser to the independent shareholders of the Company in relation to continuing connected transaction of the Company, details of which are set out in the circular of the Company dated 27 March 2023. Apart from normal professional fees paid to us in connection with the aforesaid appointment, no arrangements exist whereby we have received any fees or benefits from the Company or any other party to the transactions during the two years prior to the Latest Practicable Date, therefore we consider such relationship would not affect our independence.

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 enquiries 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 enquiries, 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 New 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 New 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.

Information of Jiangyao

Jiangyao 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) 30.50% by江西省國有資本運營控股集團有限公司 (Jiangxi State Capital Operation Holdings Group Co. Ltd*) and its subsidiary 江西國控資本有限公司 (Jiangxi State Holding Capital 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*) and (ii) 69.50% by seventeen minority shareholders. Based on the information available to the Company and to the best knowledge of the Directors, none of the seventeen minority shareholders individually controlled more than 20% shareholding of Jiangyao.

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

Background of the New Framework Agreements

As stated in the Letter from the Board, Jiangyao is a mixed-ownership state-controlled enterprise in Jiangxi Province. It has distribution channels consisting of more than 700 franchise pharmacies over seven provinces in the PRC, namely Jiangxi, Shandong, Henan, Sichuan, Hebe, Jiangsu and Guangdong. Leveraging its advantages in policies, resources and brand as a state-controlled enterprise, Jiangyao 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 New 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 New Framework Purchase Agreement enables the Group to secure a stable source of the relevant products and on-sell them in the ordinary course of business of the Group, so as to enrich the Group's product portfolio.

As discussed with the management of the Company, the Group has maintained business relationship with Jiangyao Group since 2022 and did not have any material disputes or complaints against Jiangyao Group in relation to the quality of products sold to or supplied by Jiangyao Group. The entering into of each of the New Framework Agreements between the Company and Jiangyao are in substance the extension of the established business relationship with Jiangyao Group under the Existing Framework Agreements which will continue to benefit the Group, by ensuring continuous provision of products to and by the Group through leveraging on the extensive resources of Jiangyao Group under the New Framework Agreements which will continue to ensure the quality and reliability of the Group's products. The Company is generally satisfied with the quality of the products and services rendered by the Jiangyao Group under the Existing Framework Agreements and believes that the long-term relationship between the Group and the Jiangyao Group and their familiarisation with the Group's business operations would continue to benefit the Group. Furthermore, the New Framework Agreements enable the Group to avoid unnecessary disruption to the Group's operations.

Having considered that (i) the sales and procurement form part of the daily operation of the Group; (ii) the New Framework Agreements allow the Group to maintain a stable business relationship with Jiangyao Group; (iii) the New Framework Sales Agreement does not restrict the Group to sell the products to other independent customers; (iv) the New Framework Purchase Agreement does not restrict the Group to purchase the products from other independent suppliers; (v) avoidance of any unnecessary disruption to the Group's operations; and (vi) the other terms of the New Framework Agreements remain the same as the Existing Framework Agreements, we concur with the Directors' view that entering into the New 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.

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3. Principal terms of the New Framework Agreements and the Annual Caps

(1) New Framework Sales Agreement

Pricing basis:

The prices of the products shall be agreed and stated in the implementation agreements after arm's length negotiation between the Group and Jiangyao 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 comparable to those offered by the Group to customers which are Independent Third Parties.

For our due diligence purpose, we have obtained and reviewed 10 sets of transaction records entered into between the Group and the Jiangyao Group during the period from 1 January 2024 to 30 September 2024 against transaction records entered into between the Group and the Independent Third Parties selected on a random basis from the list of customers of the medicines during the period from 1 January 2024 to 30 September 2024. We noted that the price offered to Jiangyao Group were no less favourable than the price offered to other independent third parties and the price of the medicines is relatively stable.

Given that (i) the aforesaid samples are obtained on random basis; (ii) the price of the medicines is relatively stable; and (iii) the samples we obtained are consistent and did not demonstrate any discrepancy to our understandings on the sales arrangement of the medicines between the Group and the Jiangyao Group, we are of the view that those samples are representative and sufficient for us to assess the arrangement of the sales of the medicines to Jiangyao Group.

Annual caps and its basis of determination

A summary of the historical amount under the Existing Framework Sales Agreement for the two years ended 31 December 2023 and the eleven months ended 30 November 2024 and the proposed annual caps under the New Framework Sales Agreement for the three years ending 31 December 2027 are set out in the table below:

Historical transaction amount			Proposed annual caps		
Year ending 31 December 2022	Year ending 31 December 2023	For the eleven months ended 30 November 2024	Year ending 31 December 2025	Year ending 31 December 2026	Year ending 31 December 2027
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Nil	Nil	20.1	40	50	65

As mentioned in the Letter from the Board, the proposed annual caps for the three years ending 31 December 2027 under the New Framework Sales Agreement were determined after considering, among other things, (i) the historical sales amount and the historical approved annual caps under Existing Framework Sales Agreement and the relatively low utilization from 2022 to 2024; (ii) the expected increase in the demand of medicines, medical devices, healthcare products and food supplied by the Group from Jiangyao Group for which the Group acts as a Primary Distributor; (iii) the expected demand for the direct purchase volume of brand pharmaceutical manufacturers as the

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Group actively expands the pharmaceutical terminal business; (iv) the expected increase in such demand attributable to the favourable macroeconomic and market environment; and (vi) a reasonable buffer to maintain flexibility for an upward adjustments (including due to inflation, unforeseen epidemics or otherwise).

As discussed with the management of the Company, the proposed annual caps under the New Framework Sales Agreement is primarily determined by the historical amount. Based on the transaction amount for the eleven months ended 30 November 2024, the annualized transaction amount for the year ending 31 December 2024 will be approximately RMB21.9 million.

As advised by the management of the Company, the compound annual growth rate of approximately 45% on the annual caps for the three years ending 31 December 2027 are due to the steady business growth of Jiangyao Group of 25% and a buffer of 20%. As discussed with the management of the Company, the Group understand the business growth of Jiangyao Group during their business communication with Jiangyao Group. We have reviewed the financial statement of the Jianyao Group and noted that the revenue of Jiangyao Group increased over 40% from 2022 to 2023.

Although the low utilization of historical annual caps under Existing Framework Sales Agreement ranged from 0% to approximately 9.5%, having taken into consideration of the above, in particular, (a) the aggregate proposed annual caps under New Framework Sales Agreement is substantially lower than the aggregate annual caps under Existing Framework Sales Agreement, and (b) the proposed annual caps under New Framework Sales Agreement is calculated by (i) the latest transaction amount which is the annualized proposed transaction amount for the year ending 31 December 2024; and (ii) conservative estimation of the business growth of Jiangyao Group, we are of the view that the proposed annual caps under the New Framework Sales Agreement are fairly determined and are fair and reasonable.

Based on the above, we note that (i) the terms of the New Framework Sales Arrangement as reviewed by us were in line with the transaction terms between the Group and other customers of the medicines which are Independent Third Parties; (ii) the price of the medicines were in line with the prevailing market price of the medicines, (iii) such sales were on normal commercial terms when compared with the terms offered to other customers of the medicines which are Independent Third Parties, (iv) the basis of the annual caps under the New Framework Sales Agreement, and (v) the auditor of the Company has issued an unqualified letter mentioned that nothing has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the Company's pricing policies as mentioned in the annual report of the Company for the year ended 31 December 2023. In addition, various internal control measures will be put in place within the Group to ensure compliance with the terms under the New 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 New 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 2027, and they do not represent forecasts of the medicines, medical devices, healthcare products and food to be provided to Jiangyao Group under the New 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 Jiangyao Group under the New Framework Sales Agreement will correspond with the respective proposed annual caps.

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(2) New Framework Purchase Agreement

Pricing basis

The prices of the products shall be agreed and stated in the implementation agreements after arm's length negotiation between the Group and Jiangyao 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 suppliers which are Independent Third Parties.

For our due diligence purpose, we have obtained and reviewed 10 sets of transaction records entered into between the Group and the Jiangyao Group for the two years ended 31 December 2023 and the period from 1 January 2024 to 30 September 2024 against transaction records entered into between the Group and the Independent Third Parties selected on a random basis from the list of customers of the medicines for the two years ended 31 December 2023 and the period from 1 January 2024 to 30 September 2024. We noted that the price offered by Jiangyao Group were no less favourable than the price offered by other independent third parties and the price of the medicines is relatively stable.

Given that (i) the aforesaid samples are obtained on random basis; (ii) the price of the medicines is relatively stable; and (iii) the samples we obtained are consistent and did not demonstrate any discrepancy to our understandings on the procurement arrangement of the medicines between the Group and the Jiangyao Group, we are of the view that those samples are representative and sufficient for us to assess the arrangement of the purchases of the medicines to the Jiangyao Group.

Annual caps and its basis of determination

A summary of the historical amount under the Existing Framework Purchase Agreement for the two years ended 31 December 2023 and the eleven months ended 30 November 2024 and the proposed annual cap under the New Framework Purchase Agreement for the three years ending 31 December 2027 are set out in the table below:

Historical transaction amount			Proposed annual caps		
Year ending 31 December 2022	Year ending 31 December 2023	For the eleven months ended 30 November 2024	Year ending 31 December 2025	Year ending 31 December 2026	Year ending 31 December 2027
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
21.5	61.0	108.5	180	220	270

As mentioned in the Letter from the Board, the proposed annual caps for the three year ending 31 December 2027 under the New Framework Purchase Agreement were determined after considering, among other things, (i) the historical purchase amount and the approved annual caps under Existing Purchase Agreement and the relatively low utilization from 2022 to 2024; (ii) the expected increase in the sales volume of medicines, medical devices, healthcare products and food supplied by Jiangyao Group of which Jiangyao Group acts as a Primary Distributor; (iii) the historical business growth of the Group; (iv) the potential business growth of the Group attributable to the macroeconomic and market environment; and (v) a reasonable buffer to maintain flexibility for an upward adjustments (including due to inflation, unforeseen epidemics or otherwise).

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As discussed with the management of the Company, the proposed annual caps under the New Framework Purchase Agreement is primarily determined by the historical amount. Based on the transaction amount for the eleven months ended 30 November 2024, the annualized transaction amount for the year ending 31 December 2024 will be approximately RMB118.4 million.

As advised by the management of the Company, annual cap for the year ending 31 December 2025 is primarily reference to the expected annual transaction amount for the year ending 31 December 2024 and the historical increment of approximately 183.7% and 94.1% from 2022 to 2023 and the expected increment of approximately 94.1% from 2023 to 2024 (by using annualized transaction amount for the year ending 31 December 2024). As such, the annual cap for the year ending 31 December 2025 is calculated by the expected annual transaction for the year ending 31 December 2024 with increment of approximately 47.1% which is half of the expected increment of approximately 94.1% from 2023 to 2024 (by using annualized transaction amount for the year ending 31 December 2024). The increment of approximately 25% on the annual caps for the two years ending 31 December 2027 are due to the steady business growth of Group of 5% and a buffer of 20%. We have reviewed the annual report of Group for the year ended 31 December 2023 and noted that the revenue of the Group increased over 5% from 2021 to 2022 and from 2022 to 2023.

Although the low utilization of historical annual caps under Existing Framework Purchase Agreement ranged from approximately 13.4% to 37.0%, having taken into consideration of the above, in particular, (a) the actual transaction amounts increased approximately 183.7% from the year ended 2021 to 2022 and further increased approximately 94.1% to the expected annualized transaction amount for the year ending 31 December 2024, and (b) the annual caps under New Framework Purchase Agreement is calculated by (i) the latest transaction amount which is the annualized proposed transaction amount for the year ending 31 December 2024; and (ii) reasonable estimation of the business growth of the Group, we are of the view that the proposed annual caps for the three years ending 31 December 2027 under the New Framework Purchase Agreement are fairly determined and are fair and reasonable.

Based on the above, we note that (i) the terms of the Framework Purchase Arrangement as reviewed by us were in line with the transaction terms between the Group and other suppliers of the medicines which are Independent Third Parties; (ii) the price of the medicines were in line with the prevailing market price of the medicines, (iii) such purchases were on normal commercial terms when compared with the terms offered to other suppliers of the medicines which are Independent Third Parties, (iv) the basis of the annual caps under the New Framework Purchase Agreement, and (v) the auditor of the Company has issued an unqualified letter mentioned that nothing has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the Company's pricing policies as mentioned in the annual report of the Company for the year ended 31 December 2023. In addition, various internal control measures will be put in place within the Group to ensure compliance with the terms under the New Framework Purchase 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 New Framework Purchase 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 2027, and they do not represent forecasts of the medicines, medical devices, healthcare products and food to be purchased from the Jiangyao Group under the New Framework Purchase Agreement. Consequently, we express no opinion as to how closely the actual medicines, medical devices, healthcare products and food to be purchased from the Jiangyao Group under the New

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Framework Purchase 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 New Framework Agreements are on normal commercial terms and fair and reasonable to the Company and the Shareholders and are no less favourable than terms offered to or by 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 New 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 sales to the Jiangyao 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 decide whether to accept the procurement prices offered by Jiangyao Group by comparing the quotations or prices offered by the Jiangyao Group to the 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 Jiangyao within the New Framework Purchase 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 Jiangyao 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 New Framework Agreements are conducted on normal commercial terms or better, in accordance with the terms set out in the New 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;

(v) the Company's external auditor will conduct an annual review of the transactions entered into under the New Framework Agreements to ensure that the transactions amount is within the Annual Caps and the transactions are conducted in accordance with the terms set out in the New Framework Agreements; and

(vi) the independent non-executive Directors will conduct an annual review of the status of the transactions entered into pursuant to the New 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

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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 New 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.

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 New Framework Agreements are conducted on normal commercial terms, in accordance with the terms set out in the New 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 New 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 Jiangyao 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.

RECOMMENDATION

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

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Yours faithfully,
For and on behalf of
Kingsway Capital Limited

Stanley Chung
Managing Director

Jack Wan
Responsible officer

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. Jack Wan is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than nine years of experience in corporate finance and investment banking. Both Mr. Stanley Chung and Mr. Jack Wan 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 of the total issued share capital⁽¹⁾
Mr. Yao Chuanglong	Beneficial owner	34,530,000 H Shares (L)	31.97%

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

Note:

(1)The calculation is based on the total number of 108,000,000 H Shares in issue 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:

APPENDIX**GENERAL INFORMATION**

Name of shareholder	Nature and capacity of interest	Number and class of Shares	Approximate shareholding percentage of the total issued share capital⁽¹⁾
Ms. You Zeyan	Interest of spouse ⁽²⁾	34,530,000 H Shares (L)	31.97%
Jiangyao	Beneficial owner	29,050,000 H Shares (L)	26.90%
	Interest in controlled corporation ⁽³⁾	17,420,000 H Shares (L)	16.13%
	Person having a security interest in shares ⁽⁴⁾	5,000,000 H Shares (L)	4.63%
Jiangxi Pharmaceutical Investment Co., Limited	Beneficial owner	17,420,000 H Shares (L)	16.13%

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 108,000,000 H Shares in issue as at the Latest Practicable Date.

(2) Ms. You Zeyan is the spouse of Mr. Yao Chuanglong, the vice chairman and executive Director. Therefore, she is deemed to be interested in the Shares held by Mr. Yao Chuanglong under the SFO.

(3) Jiangxi Pharmaceutical Investment Co., Limited is wholly owned by Jiangyao. Therefore, Jiangyao is deemed to be interested in the Shares held by Jiangxi Pharmaceutical Investment Co., Limited pursuant to the SFO.

(4) Jiangyao has security interest over 5,000,000 Shares, representing the Shares pledged by Mr. Yao Chuanglong in favour of Jiangyao.

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 2023, 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 activity 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 2023, 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 9 December 2024 and was made by Kingsway 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 2023, 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 New Framework Sales Agreement;
- (ii) the New Framework Purchase Agreement;
- (iii) the letter from the Independent Board Committee, the text of which is set out on pages 15 of this circular;
- (iv) the letter from the Independent Financial Adviser, the text of which is set out on pages 16 to 26 of this circular;
- (v) the written consent of Kingsway Capital Limited referred to in paragraph 6 of this Appendix; and
- (vi) 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 incorporated in the People's Republic of China)

(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 2nd Floor, No. 33, Liyu Street, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, the People's Republic of China (the “**PRC**”) at 3:00 p.m. on 27 December 2024 for the purpose of considering, and if thought fit, passing (with or without amendments) the following resolutions:

Ordinary Resolutions

1. “THAT the framework agreement dated 8 November 2024 (the “**New Framework Sales Agreement**”) entered into between the Company and Jiangyao Group Co., Ltd* (江藥集團有限公司) (“**Jiangyao**”) 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 purchases 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 Jiangyao and its subsidiaries (the “**Jiangyao Group**”) and the proposed annual caps for the transactions contemplated thereunder, be and are hereby approved and confirmed”;

2. “THAT the framework agreement dated 8 November 2024 (the “**New Framework Purchase Agreement**”) entered into between the Company and Jiangyao for the purchase of medicines, medical devices, healthcare products and food for which Jiangyao Group acts as a Primary Distributor from Jiangyao 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 New Framework Sales Arrangement and the New Framework Purchase Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”

For and on behalf of the Board

Charmacy Pharmaceutical Co., Ltd.

Yan Jingbin

Chairman

Shantou, the PRC, 9 December 2024

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. All resolutions at the meeting will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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, 24 December 2024 to Friday, 27 December 2024 (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 share 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 registration not later than 4:30 p.m. on Monday, 23 December 2024.
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 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 not less than 24 hours before the time for holding the EGM (i.e. not later than 3:00 p.m. on Thursday, 26 December 2024) (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.
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 of the Company are Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi; the non-executive directors of the Company are Mr. Mr. Yan Jingbin, Ms. Fu Zheng and Mr. Xu Fei; and the independent non-executive directors of the Company are Mr. Li Hanguo, Mr. Wan Chi Wai Anthony and Mr. Guan Jian (also known as Guan Suzhe).

**For identification purpose only*