

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 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 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.

### **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		For the eleven			Year ending
31 December	Year ending 31	months ended 30	Year ending 31	Year ending 31	31 December
2022	December 2023	November 2024	December 2025	December 2026	2027
RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
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 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 Jiangyao 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.

## **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	Year ending 31 December	For the eleven months ended 30	Year ending 31 December	Year ending 31 December	Year ending 31 December
2022	2023	November 2024	2025	2026	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).

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% 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 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 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.

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.*