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If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kingworld Medicines Group Limited, you should at once hand this circular, together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01110)

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ANNUAL CAPS FOR THE THREE YEARS
ENDING 31 DECEMBER 2022
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

VINCO  城高

VINCO CAPITAL LIMITED

A letter from the Board is set out on pages 7 to 20 of this circular.

A letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders, is set out on pages 21 to 22 of this circular.

A letter from Vinco Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 43 of this circular.

A notice convening the EGM to be held at 9th Floor, Block A, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, The PRC on Thursday, 16 January 2020 at 10:00 a.m. is set out on pages 51 to 52 of this circular. A form of proxy for use at the EGM is enclosed in this circular. Whether or not you are able to attend such meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

31 December 2019

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

“2017 SZ Kingworld Lifeshine Master Distribution Agreement”	the master distribution agreement dated 1 December 2016 entered into between SZ Kingworld and SZ Kingworld Lifeshine for the purchase of the SZ Kingworld Lifeshine Products for the year ended 31 December 2017
“2017 Yuen Tai Master Distribution Agreement”	the master distribution agreement dated 1 December 2016 entered into between HK Kingworld and Yuen Tai for the purchase of the Yuen Tai Products for the year ended 31 December 2017, as revised and supplemented by the Supplemental Agreement
“2018 SZ Kingworld Lifeshine Master Distribution Agreement”	the master distribution agreement dated 14 December 2017 entered into between SZ Kingworld and SZ Kingworld Lifeshine for the purchase of the SZ Kingworld Lifeshine Products for the year ended 31 December 2018
“2018 Yuen Tai Master Distribution Agreement”	the master distribution agreement dated 14 December 2017 entered into between HK Kingworld and Yuen Tai for the purchase of the Yuen Tai Products for the year ended 31 December 2018
“2019 SZ Kingworld Lifeshine Master Distribution Agreement”	the master distribution agreement dated 11 December 2018 entered into between SZ Kingworld and SZ Kingworld Lifeshine for the purchase of the SZ Kingworld Lifeshine Products for the year ending 31 December 2019
“2019 Yuen Tai Master Distribution Agreement”	the master distribution agreement dated 11 December 2018 entered into between HK Kingworld and Yuen Tai for the purchase of the Yuen Tai Products for the year ending 31 December 2019
“2020 Master Distribution Agreements”	collectively, (i) the 2020 Yuen Tai Master Distribution Agreement; and (ii) the 2020 SZ Kingworld Lifeshine Master Distribution Agreement

DEFINITIONS

“2020 SZ Kingworld Lifeshine Master Distribution Agreement”	the master distribution agreement dated 20 November 2019 entered into between SZ Kingworld and SZ Kingworld Lifeshine for the purchase of the SZ Kingworld Lifeshine Products for the three years ending 31 December 2022, as revised and supplemented by the 2020 SZ Kingworld Lifeshine Supplemental Agreement
“2020 SZ Kingworld Lifeshine Supplemental Agreement”	the supplemental agreement to the 2020 SZ Kingworld Lifeshine Master Distribution Agreement dated 24 December 2019 entered into between SZ Kingworld and SZ Kingworld Lifeshine to revise the term and the party who may purchase the SZ Kingworld Lifeshine Products under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement
“2020 Yuen Tai Master Distribution Agreement”	the master distribution agreement dated 20 November 2019 entered into between HK Kingworld and Yuen Tai for the purchase of the Yuen Tai Products for the three years ending 31 December 2022, as revised and supplemented by the 2020 Yuen Tai Supplemental Agreement
“2020 Yuen Tai Supplemental Agreement”	the supplemental agreement to the 2020 Yuen Tai Master Distribution Agreement dated 24 December 2019 entered into between HK Kingworld and Yuen Tai to revise the term and the party who may purchase the Yuen Tai Products under the 2020 Yuen Tai Master Distribution Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“BVI”	the British Virgin Islands
“Company”	Kingworld Medicines Group Limited (金活醫藥集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Director(s)”	the director(s) of the Company
“Dual-Specification”	a classification of pharmaceutical product which can be sold pursuant to the requirement as for either prescription or OTC pharmaceutical products
“EGM”	an extraordinary general meeting of the Company to be convened at 9th Floor, Block A, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, The PRC on Thursday, 16 January 2020 at 10:00 a.m. (or any adjournment thereof) for the purpose of considering, and if thought fit, approving the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022
“Fengbao Jianfu Capsule”	Fengbao Jianfu Capsule (鳳寶牌健婦膠囊), a Dual-Specification pharmaceutical product manufactured in Hong Kong and imported from Yuen Tai
“GMP”	Good Manufacturing Practices, the practices required in order to conform to the guidelines recommended by agencies that control authorisation and licensing for manufacture and sale of food, drug products and active pharmaceutical products
“Golden Land”	Golden Land International Limited (金國國際有限公司), a limited liability company incorporated under the laws of the BVI
“Golden Morning”	Golden Morning International Limited (金辰國際有限公司), a limited liability company incorporated under the laws of the BVI
“Greater China”	the PRC, including Hong Kong, Macao Special Administrative Region of the PRC and Taiwan
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“HK Kingworld”	Kingworld Medicine Healthcare Limited (金活藥業健康發展有限公司), a limited liability company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Imada Red Flower Oil”	Imada Red Flower Oil (依馬打正紅花油), a prescribed pharmaceutical product distributed by the Group
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors, namely, Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam
“Independent Financial Adviser” or “Vinco Capital”	Vinco Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which is appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the 2020 Yuen Tai Master Distribution Agreement, the 2020 SZ Kingworld Lifeshine Master Distribution Agreement and the proposed annual caps for the transactions under each of these agreements
“Independent Shareholder(s)”	the Shareholder(s), other than those required by the Listing Rules to abstain from voting on the resolutions to be proposed at the EGM in relation to the 2020 Master Distribution Agreements and accordingly, the proposed annual caps for the continuing connected transactions contemplated thereunder
“Kingworld Product Range”	products including but not limited to Kingworld Gan Mao Qing Capsule (金活感冒清膠囊) and products under the Kingworld American Ginseng series (金活洋參系列)
“Latest Practicable Date”	24 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Memorandum and Articles”	the memorandum and articles of association of the Company
“Morning Gold”	Morning Gold Medicine Company Limited (金辰醫藥有限公司), a limited liability company incorporated under the laws of Hong Kong
“Mr. Zhao”	Zhao Li Sheng (趙利生), the chairman, an executive Director, a co-founder and Controlling Shareholder of the Company
“Ms. Chan”	Chan Lok San (陳樂燊), an executive Director, a co-founder and Controlling Shareholder of the Company
“OTC”	over the counter, a classification of pharmaceutical product which can be obtained without any doctors’ prescriptions. In the PRC, OTC products are further classified into “OTC (A)” and “OTC (B)”
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholders”	the holders of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement to the 2017 Yuen Tai Master Distribution Agreement dated 28 September 2017 entered into between Yuen Tai and HK Kingworld to revise the maximum transaction amount contemplated under the 2017 Yuen Tai Master Distribution Agreement for the year ended 31 December 2017
“SZ Industry”	Shenzhen Kingworld Industry Company Limited* (深圳市金活實業有限公司), a company established in the PRC with limited liability

DEFINITIONS

“SZ Kingworld”	Shenzhen Kingworld Medicine Company Limited* (深圳市金活醫藥有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“SZ Kingworld Lifeshine”	Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited* (深圳金活利生藥業有限公司), a company established in the PRC with limited liability
“SZ Kingworld Lifeshine Products”	certain pharmaceutical and healthcare products manufactured by SZ Kingworld Lifeshine including but not limited to the Kingworld Product Range and Imada Red Flower Oil
“Yuen Tai”	Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司), a limited company incorporated under the laws of Hong Kong
“Yuen Tai Products”	certain pharmaceutical and healthcare products purchased or to be purchased by the Group from Yuen Tai including but not limited to (i) Fengbao Jianfu Capsule (鳳寶牌健婦膠囊); (ii) Pu Ji Kang Gan Granules (普濟抗感顆粒); and (iii) other products manufactured by Yuen Tai for digestion
“%”	per cent

The exchange rate adopted in this circular is for illustration purpose only. Such conversion should not be construed as a representation that the currency could actually be converted at that rate.

** For identification purposes only*

LETTER FROM THE BOARD



KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01110)

Executive Directors:

Mr. Zhao Li Sheng

Ms. Chan Lok San

Mr. Zhou Xuhua

Independent Non-executive Directors:

Mr. Duan Jidong

Mr. Zhang Jianbin

Mr. Wong Cheuk Lam

Registered Office:

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Cayman Islands

Principal Place of Business in Hong Kong:

Units 1906-1907, 19th Floor

Shui On Centre

6-8 Harbour Road

Wanchai

Hong Kong

31 December 2019

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ANNUAL CAPS FOR THE THREE YEARS
ENDING 31 DECEMBER 2022
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

(1) INTRODUCTION

Reference is made to the announcement of the Company dated 20 November 2019 and 24 December 2019 in relation to, inter alia, the 2020 Master Distribution Agreements.

LETTER FROM THE BOARD

The main purpose of this circular is to provide you with, among other things:

- (i) further information as is necessary to enable you to make an informed decision on whether to vote for or against the resolutions to be proposed at the EGM relating to the transactions under each of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022 (the “**Proposed Transactions**”);
- (ii) the letter of recommendation from the Independent Board Committee relating to the Proposed Transactions;
- (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders;
- (iv) the notice of the EGM; and
- (v) other information required by the Listing Rules.

(2) 2020 MASTER DISTRIBUTION AGREEMENTS

A. Background

Reference is made to the announcement of the Company dated 11 December 2018 in respect of certain continuing connected transactions with Yuen Tai and SZ Kingworld Lifeshine contemplated under the 2019 Yuen Tai Master Distribution Agreement and the 2019 SZ Kingworld Lifeshine Master Distribution Agreement, respectively.

In view of the prospective expiry of the 2019 Yuen Tai Master Distribution Agreement and the 2019 SZ Kingworld Lifeshine Master Distribution Agreement, the Board announced that on 20 November 2019 (after trading hours), (1) HK Kingworld, a wholly-owned subsidiary of the Company, entered into the 2020 Yuen Tai Master Distribution Agreement with Yuen Tai for the purchase of the Yuen Tai Products for the three years ending 31 December 2022, and (2) SZ Kingworld, a wholly-owned subsidiary of the Company, entered into the 2020 SZ Kingworld Lifeshine Master Distribution Agreement with SZ Kingworld Lifeshine for the purchase of the SZ Kingworld Lifeshine Products for the three years ending 31 December 2022 and proposed to renew their respective annual caps for the three years ending 31 December 2022. Details of the 2020 Master Distribution Agreements are as follows:

B. 2020 Yuen Tai Master Distribution Agreement

1. *Date:* 20 November 2019

(as supplemented by the 2020 Yuen Tai Supplemental Agreement dated 24 December 2019)

LETTER FROM THE BOARD

2. Parties:

- (a) HK Kingworld, a wholly-owned subsidiary of the Company
- (b) Yuen Tai

3. Description of the transactions:

Pursuant to the 2020 Yuen Tai Master Distribution Agreement, HK Kingworld or the wholly owned subsidiary of the Company shall purchase the Yuen Tai Products, which mainly include Fengbao Jianfu Capsule and Pu Ji Kang Gan Granules, from Yuen Tai and act as the exclusive distributor for distribution of the Yuen Tai Products in the Greater China.

4. Condition precedent:

The 2020 Yuen Tai Master Distribution Agreement shall take effect subject to and conditional upon obtaining the Independent Shareholders' approval in respect of the 2020 Yuen Tai Master Distribution Agreement and the proposed annual caps for the transactions under the agreement.

5. Term:

The 2020 Yuen Tai Master Distribution Agreement is for a term of three years with effect from 16 January 2020 or the date on which the 2020 Yuen Tai Master Distribution Agreement and the proposed annual caps for the transactions under the agreement are approved by the Independent Shareholders (whichever is later) and ending on 31 December 2022 (both days inclusive).

6. Pricing and payment terms:

The 2020 Yuen Tai Master Distribution Agreement was negotiated and entered into on an arm's length basis and on normal commercial terms. The terms and conditions (including but not limited to the prices) on which the Yuen Tai Products are to be purchased by the Group should be on normal commercial terms and, where there is comparable product available in the market, should be no less favourable than those obtained from independent third parties by the Group. The Group will satisfy the consideration of such purchases by its internal resources.

The prices of the Yuen Tai Products to be purchased by the Group will be based on the prevailing market prices of similar products and the unit prices of the Yuen Tai Products from time to time and will be no less favourable to the Group than those terms offered by other independent third parties suppliers, where there is comparable product available in the market. If price comparison is not applicable, the price would be accepted with reference to a minimum profit margin of approximately 25% on average to ensure no loss making for purchasing the Yuen Tai Products.

LETTER FROM THE BOARD

The actual amounts, types, unit prices, delivery dates and methods of delivery of the Yuen Tai Products to the Group will be subject to individual orders placed by the Group and accepted by Yuen Tai. To the extent that a comparison can be made (subject to similar nature, quality, quantity of purchase and conditions of the products and/or services), the Company and/or HK Kingworld shall use its best efforts to obtain price quotations from at least two independent third parties for comparison purposes (if applicable), to determine whether the prices and/or terms offered by Yuen Tai are fair and reasonable, and are similar to or more favourable than those offered by the independent third party(ies). The Group shall have the right to terminate or cancel the transactions if the terms and conditions are less favourable to the Group than those offered by other independent third parties suppliers.

40% of the purchase price shall be paid in advance by the Group within three days after the Group has placed an order for each batch of products and the remaining balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection.

7. *Historical transaction amounts:*

Set out below are the historical transaction amounts between the Group and Yuen Tai in respect of the purchase and distribution of Yuen Tai Products under the 2017 Yuen Tai Mater Distribution Agreement for the year ended 31 December 2017, under the 2018 Yuen Tai Master Distribution Agreement for the year ended 31 December 2018 and under the 2019 Yuen Tai Master Distribution Agreement for the ten months ended 31 October 2019, the annual caps under the 2017 Yuen Tai Master Distribution Agreement for the year ended 31 December 2017, under the 2018 Yuen Tai Master Distribution Agreement for the year ended 31 December 2018 and under the 2019 Yuen Tai Master Distribution Agreement for the year ending 31 December 2019:

	Audited transaction amount for the year ended 31 December 2017		Audited transaction amount for the year ended 31 December 2018		Unaudited transaction amount for the ten months ended 31 October 2019	
	Annual cap for the year ended 31 December 2017	Annual cap for the year ended 31 December 2017	Annual cap for the year ended 31 December 2018	Annual cap for the year ended 31 December 2018	Annual cap for the year ending 31 December 2019	Annual cap for the year ending 31 December 2019
Purchase of Yuen Tai Products	HK\$3,739,000	HK\$6,320,000	HK\$15,000	HK\$8,900,000	HK\$nil	HK\$3,670,000
	RMB3,175,000	RMB5,366,000	RMB13,000	RMB7,556,000	RMBnil	RMB3,233,000
			<i>(equivalent to approximately)</i>			

LETTER FROM THE BOARD

The relatively low transaction amount for the year ended 31 December 2018 was mainly due to the delay in obtaining production certification by Yuen Tai for the supply of the Yuen Tai Products and that the one-off approval of the production certificate expired during the year ended 31 December 2018. There was no transaction under the 2019 Yuen Tai Master Distribution Agreement for the ten months ended 31 October 2019 since the relevant production certificate was only obtained by the Group in November 2019.

8. *Proposed annual caps:*

Set out below are the proposed annual caps under the 2020 Yuen Tai Master Distribution Agreement for the three years ending 31 December 2022:

	Annual cap for the year ending 31 December 2020	Annual cap for the year ending 31 December 2021	Annual cap for the year ending 31 December 2022
Purchase of Yuen Tai Products	HK\$4,740,000	HK\$9,968,000	HK\$13,781,000
		<i>(equivalent to approximately)</i>	
	RMB4,242,000	RMB8,921,000	RMB12,334,000

In arriving at the above proposed annual caps, the Directors have taken into account the following factors:

- (i) the historical figures of the actual transaction amounts of the transactions under the 2017 Yuen Tai Master Distribution Agreement for the year ended 31 December 2017, under the 2018 Yuen Tai Master Distribution Agreement for the year ended 31 December 2018 and under the 2019 Yuen Tai Master Distribution Agreement for the ten months ended 31 October 2019. The Directors are of the view that there was no transaction under the 2019 Yuen Tai Master Distribution Agreement for the ten months ended 31 October 2019 due to the delay in the process of renewing the production certificate by Yuen Tai for the supply of the Yuen Tai Products, which was an uncontrollable one-off incident. The related production certificate was obtained by the Group in early November 2019 and is valid till 29 November 2023. Since the production certificate has now been obtained and will be valid till 29 November 2023, the Directors do not foresee any further delay due to the delay in obtaining/renewing the production certification for the three years ending 31 December 2022; and
- (ii) the expected demand for different pharmaceutical and healthcare products from customers based on the three-year sales forecast received from the Group's main distributor.

The proposed annual caps are calculated by multiplying the planned purchase amount by the estimated unit price of the products.

LETTER FROM THE BOARD

In considering the above factors, the Directors have taken into account the planned purchase amount for the Yuen Tai Products by the Group, the expected amount of purchase order from customers and the estimated average purchase price of the Yuen Tai Products.

C. 2020 SZ Kingworld Lifeshine Master Distribution Agreement

1. *Date:* 20 November 2019

(as supplemented by the 2020 SZ Kingworld Lifeshine Supplemental Agreement dated 24 December 2019)

2. *Parties:*

- (a) SZ Kingworld, a wholly-owned subsidiary of the Company
- (b) SZ Kingworld Lifeshine

3. *Description of the transactions:*

Pursuant to the 2020 SZ Kingworld Lifeshine Master Distribution Agreement, SZ Kingworld or the wholly owned subsidiary of the Company shall purchase the SZ Kingworld Lifeshine Products, which mainly include Imada Red Flower Oil, Kingworld Gan Mao Qing Capsule and products under the Kingworld American Ginseng series, from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of the SZ Kingworld Lifeshine Products in the Greater China.

4. *Condition precedent:*

The 2020 SZ Kingworld Lifeshine Master Distribution Agreement shall take effect subject to and conditional upon obtaining the Independent Shareholders' approval in respect of the 2020 SZ Kingworld Lifeshine Master Distribution Agreement and the proposed annual caps for the transactions under the agreement.

5. *Term:*

The 2020 SZ Kingworld Lifeshine Master Distribution Agreement is for a term of three years with effect from 16 January 2020 or the date on which the 2020 SZ Kingworld Lifeshine Master Distribution Agreement and the proposed annual caps for the transactions under the agreement are approved by the Independent Shareholders (whichever is later) and ending on 31 December 2022 (both days inclusive).

6. *Pricing and payment terms:*

The 2020 SZ Kingworld Lifeshine Master Distribution Agreement was negotiated and entered into on an arm's length basis and on normal commercial terms. The terms and conditions (including but not limited to the prices) on which the SZ Kingworld Lifeshine Products are to be purchased by the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by the Group. The Group will satisfy the consideration of such purchases by its internal resources.

LETTER FROM THE BOARD

The prices of the SZ Kingworld Lifeshine Products to be purchased by the Group will be based on the prevailing market prices of similar products and the unit prices of the SZ Kingworld Lifeshine Products as from time to time and will be no less favourable to the Group than those terms offered by other independent third parties suppliers. If price comparison is not applicable, the price offered by SZ Kingworld Lifeshine would be accepted by the Group with reference to a minimum profit margin of approximately 25% on average to ensure no loss making for purchasing the SZ Kingworld Lifeshine Products.

The actual amounts, types, unit prices, delivery dates and methods of delivery of the SZ Kingworld Lifeshine Products to the Group will be subject to individual orders placed by the Group and accepted by SZ Kingworld Lifeshine. To the extent that a comparison can be made (subject to similar nature, quality, quantity of purchase and conditions of the products and/or services), the Company and/or SZ Kingworld shall use its best efforts to obtain price quotations from at least two independent third parties for comparison purposes (if applicable), to determine whether the prices and/or terms offered by SZ Kingworld Lifeshine are fair and reasonable, and are similar to or more favourable than those offered by the independent third party(ies). The Group shall have the right to terminate or cancel the transactions if the terms and conditions are less favourable to the Group than those offered by other independent third parties suppliers.

40% of the purchase price shall be paid in advance by the Group within three days after the Group has placed an order for each batch of products and the remaining balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection.

7. *Historical transaction amounts:*

Set out below are the historical transaction amounts between the Group and SZ Kingworld Lifeshine in respect of the purchase and distribution of SZ Kingworld Lifeshine Products under the 2017 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2017, under the 2018 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2018 and under the 2019 SZ Kingworld Lifeshine Master Distribution Agreement for the ten months ended 31 October 2019, the annual caps under the 2017 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2017, under the 2018 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2018 and under the 2019 SZ Kingworld Lifeshine Master Distribution Agreement for the year ending 31 December 2019:

	Audited transaction amount for the year ended 31 December 2017	Annual cap for the year ended 31 December 2017	Audited transaction amount for the year ended 31 December 2018	Annual cap for the year ended 31 December 2018	Unaudited transaction amount for the ten months ended 31 October 2019	Annual cap for the year ending 31 December 2019
Purchase of SZ Kingworld Lifeshine Products	RMB9,187,000	RMB24,340,000	RMB\$11,664,000 <i>(equivalent to approximately)</i>	RMB21,910,000	RMB\$10,839,000	RMB20,400,000
	HK\$10,618,000	HK\$27,748,000	HK\$13,817,000	HK\$25,807,000	HK\$12,232,000	HK\$23,156,000

LETTER FROM THE BOARD

8. *Proposed annual caps:*

Set out below are the proposed annual caps under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement for the three years ending 31 December 2022:

	Annual cap for the year ending 31 December 2020	Annual cap for the year ending 31 December 2021	Annual cap for the year ending 31 December 2022
Purchase of SZ Kingworld Lifeshine Products	RMB22,271,000 HK\$24,884,000	RMB24,498,000 HK\$27,372,000	RMB26,948,000 HK\$30,110,000
	<i>(equivalent to approximately)</i>		

In arriving at the above proposed annual caps, the Directors have taken into account the following factors:

- (i) the historical figures of the actual transaction amounts of the transactions under the 2017 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2017, under the 2018 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2018 and under the 2019 SZ Kingworld Lifeshine Master Distribution Agreement for the ten months ended 31 October 2019; and
- (ii) the expected demand for different pharmaceutical and healthcare products from customers.

The proposed annual caps are calculated by multiplying the planned purchase amount by the estimated unit price of the products. The transaction amounts for the ten months ended 31 October 2019 increased by approximately 20.93%, as compared to the transaction amounts for ten months ended 31 October 2018. The Directors estimate that the transaction amount under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement will increase by approximately 10% per year in the coming three years.

In considering the above factors, the Directors have taken into account the planned purchase amount for the SZ Kingworld Lifeshine Products by the Group, the expected expansion of its distributions scale, the expected increase in demand from customers and the estimated average purchase price of the SZ Kingworld Lifeshine Products.

LETTER FROM THE BOARD

D. Reasons for and Benefits in Entering into the 2020 Master Distribution Agreements

The Group is principally engaged in the distribution of pharmaceutical and healthcare products in the PRC. The pharmaceutical and healthcare products distributed by the Group are supplied by various suppliers including Yuen Tai and SZ Kingworld Lifeshine. The Directors consider that a long term and steady relationship with these suppliers are of importance to the Group as it enables stability in the supply to the Group which in turn avoids any unnecessary disruption to the Group's business and guarantees a smooth operation of the Group. By entering into the 2020 Master Distribution Agreements, the Group can maintain long term relationships with Yuen Tai and SZ Kingworld Lifeshine.

Pursuant to the 2020 Master Distribution Agreements, the products to be purchased by the Group are on an exclusive basis and the prices of such products should be on normal commercial terms and no less favourable than those obtained from independent third parties. As such, the Group may gain competitive advantage in terms of costs. As the Group will act as the exclusive distributor for distribution of such products in the Greater China, the Group may avoid competition with other distributors with respect to the same products in the market.

In light of the above factors, the Directors (excluding Mr. Zhao and Ms. Chan, who have abstained from voting on the relevant board resolutions due to their interest in the 2020 Master Distribution Agreements and the independent non-executive Directors) consider that the terms under each of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022 are fair and reasonable and in the interests of the Shareholders as a whole. The opinion of the independent non-executive Directors will be formed after taking into account the advice to be provided by the Independent Financial Adviser, which will be set out in the circular to be despatched to the Shareholders on or before 31 December 2019.

E. General Information

1. *Principal Business Activities*

(a) The Group

The Group is principally engaged in the distribution of pharmaceutical and healthcare products in the PRC and Hong Kong.

(b) Yuen Tai

Yuen Tai is principally engaged in the manufacturing of pharmaceutical and healthcare products.

(c) SZ Kingworld Lifeshine

SZ Kingworld Lifeshine is principally engaged in the manufacturing of pharmaceutical and healthcare products.

LETTER FROM THE BOARD

(d) *SZ Kingworld*

SZ Kingworld is principally engaged in the distribution of imported branded pharmaceutical and healthcare products in the PRC. As at 30 November 2019, SZ Kingworld managed a portfolio of eleven categories, which include more than 60 products, including pharmaceutical products, healthcare products, general foodstuffs and medical products from suppliers or manufacturers from Japan, the United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. The products distributed by SZ Kingworld include Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kawai Product Range, Flying Eagle Wood Lok Medicated Oil and Mentholatum Product Series.

(e) *HK Kingworld*

HK Kingworld is principally engaged in the distribution of imported branded healthcare products in Hong Kong and Macao, including the Culturelle (康萃樂) probiotics product series from the United States, which is a leading brand in the probiotics product market in the United States and the probiotics product brand for children most recommended by pediatricians in the United States. The distribution channels of Culturelle's sales terminal sites in Hong Kong and Macao include Mannings, Watsons, SaSa, Colourmix, CR Care, HealthPlus, Eugene Baby, Yue Wah Chinese Products, AEON Stores, HKTV Mall and a number of pharmacies.

F. Implications under the Listing Rules

Both Yuen Tai and SZ Kingworld Lifeshine are companies wholly-owned by Morning Gold, which is in turn 51% held by Mr. Zhao and 49% held by Ms. Chan, respectively. Both of Mr. Zhao and Ms. Chan are executive Directors and Controlling Shareholders of the Company. Therefore, each of Yuen Tai and SZ Kingworld Lifeshine is a connected person of the Company and the transactions under each of the 2020 Master Distribution Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the transactions contemplated under the 2020 Master Distribution Agreements are to be made with Yuen Tai and SZ Kingworld Lifeshine, and these two companies are indirectly wholly-owned by Mr. Zhao and Ms. Chan, such transactions shall be aggregated in accordance with Rule 14A.81 of the Listing Rules.

Since one or more of the applicable percentage ratios in respect of the aggregate of the proposed annual caps for the transactions contemplated under the 2020 Master Distribution Agreements is/are expected to exceed 5%, the transactions thereunder are subject to the reporting announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company confirms that the transactions contemplated under the 2020 Master Distribution Agreements are of a revenue nature in the ordinary and usual course of business of the Company and therefore are exempted from the requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

As Mr. Zhao and Ms. Chan have a material interest in the 2020 Master Distribution Agreements and the transactions contemplated thereunder, Mr. Zhao and Ms. Chan and their associates are required under the Listing Rules to abstain from voting on the relevant resolutions at the EGM in respect of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022. Other than Mr. Zhao and Ms. Chan, no Director is materially interested in the transactions under each of the 2020 Master Distribution Agreements and is required to abstain from voting on the Board resolutions to approve such agreements.

Mr. Zhao, Ms. Chan, Golden Land and Golden Morning are Controlling Shareholders of the Company, therefore each of them and their respective associate(s) are connected persons (as defined under the Listing Rules) of the Company. Golden Land and Golden Morning are investment holding companies. Pursuant to Rule 14A.70(12) of the Listing Rules, where independent shareholders' approval is required with regard to a connected transaction, any connected person with a material interest in such transaction and any shareholder with a material interest in such transaction and its associates, will not vote on such transaction. Accordingly, Mr. Zhao, Ms. Chan, Golden Land and Golden Morning and their respective associate(s) shall at the EGM abstain from voting in respect of the resolutions to approve the Proposed Transactions, which will be taken on a poll as required under the Listing Rules.

As at the Latest Practicable Date, Mr. Zhao, Ms. Chan, Golden Land and Golden Morning and their respective associates controlled or were entitled to exercise control over the voting rights in respect of 405,660,250 shares in the Company, representing approximately 65.2% of the entire issued share capital of the Company.

To the extent that the Company is aware having made all reasonable enquiries, as at the Latest Practicable Date:

- (i) there was no voting trust or other agreement, arrangement or understanding entered into by or binding upon Mr. Zhao, Ms. Chan, Golden Land and Golden Morning;
- (ii) each of Mr. Zhao, Ms. Chan, Golden Land and Golden Morning was not subject to any obligation or entitlement whereby he/it had or might have temporarily or permanently passed control over the exercise of the voting right in respect of his/its shares in the Company to a third party, whether generally or on a case-by-case basis; and
- (iii) it was not expected that there would be any discrepancy between each of Mr. Zhao's, Ms. Chan's, Golden Land's or Golden Morning's beneficial shareholding interest in the Company, and the number of shares in the Company in respect of which he/it would control or would be entitled to exercise control over the voting right at the EGM.

LETTER FROM THE BOARD

As far as the Directors are aware, other than Mr. Zhao, Ms. Chan, Golden Land and Golden Morning and their respective associate(s), no other Shareholder has a material interest in the Proposed Transactions and has to abstain from voting at the EGM in respect of the resolutions to approve the Proposed Transactions.

The Independent Board Committee has been established to advise the Independent Shareholders on the transactions under each of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions under each of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022. The letter from the Independent Board Committee and its recommendations to the Independent Shareholders are set out on pages 21 to 22 of this circular, and the opinion letter from the Independent Financial Adviser is set out on pages 23 to 43 of this circular.

G. Internal Control Measures Governing the 2020 Master Distribution Agreements

The Group has adopted the following internal control procedures to govern the continuing connected transactions of the Company under the 2020 Master Distribution Agreements:

- (i) The internal control department of the Group (the “**Internal Control Department**”) will manage and monitor the transactions to be entered under the 2020 Distribution Agreements. The Internal Control Department will conduct review on the prices of products of similar specification and quality in the market on an annual basis and ensure that the purchase prices of the Yuen Tai Products and SZ Kingworld Lifeshine Products are fair and reasonable and where there is no comparable product available in the market, the purchase price should be determined by arm’s length basis and on normal commercial terms.
- (ii) To ensure that the proposed annual caps will not be exceeded and the continuing connected transactions are conducted in accordance with the pricing policies under the 2020 Master Distribution Agreements, the Internal Control Department will closely monitor and record the transaction amount of each order under the 2020 Master Distribution Agreements, conduct price comparison on an annual basis, submit the procurement plans and status reports to the executive Directors and the company secretary of the Company on a monthly basis, and report to the audit committee of the Board on a semi-annual basis.
- (iii) The management of the Company will discuss with the independent non-executive Directors if there is any potential compliance issue during the term of the 2020 Master Distribution Agreements and where necessary, seek advice from professional parties such as legal advisers and/or auditor.

LETTER FROM THE BOARD

- (iv) The independent non-executive Directors will perform annual review pursuant to Rule 14A.55 of the Listing Rules on whether the transactions under the 2020 Master Distribution Agreements are conducted (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the 2020 Master Distribution Agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (v) The Company's auditor will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually and confirm pursuant to Rule 14A.56 of the Listing Rules on, among others, whether (a) the transactions under the 2020 Master Distribution Agreements have been approved by the Board; (b) the transactions were entered into, in all material respects, in accordance with the 2020 Master Distribution Agreements governing the transactions; and (c) the relevant proposed annual caps have not been exceeded.

(3) EXTRAORDINARY GENERAL MEETING AND PROXY ARRANGEMENT

A notice convening the EGM to be held at 9th Floor, Block A, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, The PRC on Thursday, 16 January 2020, at 10:00 a.m. is set out on pages 51 to 52 of this circular. At the EGM, ordinary resolutions will be proposed to approve the transactions under each of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022.

A form of proxy for use at the EGM is enclosed in this circular. Whether or not you are able to attend such meeting, please complete, sign and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Pursuant to Rules 13.39(4) of the Listing Rules, all votes of the Shareholders at the EGM must be taken by poll. The Chairman of the meeting will therefore demand a poll for every resolution to be passed at the EGM pursuant to the Memorandum and Articles. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

(4) RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 21 to 22 of this circular; (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as set out on pages 23 to 43 of this circular; and (iii) the additional information set out in the appendix to this circular.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that (i) the transactions under each of the 2020 Master Distribution Agreements are fair and reasonable, and that it is in the interests of the Company and the Shareholders as a whole to enter into the Proposed Transactions with Yuen Tai and SZ Kingworld Lifeshine respectively; and (ii) the proposed annual caps for the three years ending 31 December 2022 for each of the 2020 Master Distribution Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Independent Shareholders to attend and vote at the EGM in favour of the ordinary resolutions set out in the notice of the EGM.

By order of the Board
Kingworld Medicines Group Limited
Zhao Li Sheng
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01110)

31 December 2019

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ANNUAL CAPS FOR THE THREE YEARS
ENDING 31 DECEMBER 2022**

We refer to the circular dated 31 December 2019 (the “**Circular**”) to the Shareholders, of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee, which has been established to advise the Independent Shareholders in respect of the transactions under each of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022 (the “**Proposed Transactions**”), details of which are set out in the letter from the Board contained in the Circular. None of us has a material interest in the Proposed Transactions.

Both Yuen Tai and SZ Kingworld Lifeshine are companies wholly-owned by Morning Gold, which is in turn 51% held by Mr. Zhao and 49% held by Ms. Chan, respectively. Both of Mr. Zhao and Ms. Chan are executive Directors and Controlling Shareholders of the Company. Therefore, each of Yuen Tai and SZ Kingworld Lifeshine is a connected person of the Company. The Proposed Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Vinco Capital has been appointed as the Independent Financial Adviser to advise us in respect of the Proposed Transactions. We wish to draw your attention to the opinion letter from Vinco Capital as set out on pages 23 to 43 of the Circular.

As members of the Independent Board Committee, we have taken into account the principal factors and reasons considered by Vinco Capital in forming its opinion in relation to the Proposed Transactions.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

On the basis of the above, we consider, and agree with the view of Vinco Capital, that the transactions under each of the 2020 Master Distribution Agreements are fair and reasonable, and that it is in the interests of the Company and the Shareholders as a whole to enter into the Proposed Transactions with Yuen Tai and SZ Kingworld Lifeshine respectively.

We further consider, and agree with the view of Vinco Capital, that the proposed annual caps for the three years ending 31 December 2022 for each of the 2020 Master Distribution Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Proposed Transactions.

Yours faithfully,

For and on behalf of
the Independent Board Committee

Mr. Duan Jidong

Mr. Zhang Jianbin

Mr. Wong Cheuk Lam

Independent non-executive Directors

LETTER FROM VINCO CAPITAL

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders respect of the terms of the 2020 Master Distribution Agreements and their respective proposed annual caps for the purpose of incorporation in this circular:



Vinco Capital Limited

Unit 2610, 26/F., The Center
99 Queen's Road Central, Hong Kong

31 December 2019

To the Independent Board Committee and the Independent Shareholders of
Kingworld Medicines Group Limited

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ANNUAL CAPS FOR THE THREE YEARS
ENDING 31 DECEMBER 2022**

A. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022, details of which are set out in the “Letter from the Board” in the circular (the “**Circular**”) issued by the Company to the Shareholders dated 31 December 2019 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

I. Revision of annual caps of the continuing connected transactions

Reference is made to the announcements of the Company dated 20 November 2019 and 24 December 2019 in relation to, inter alia, the 2020 Master Distribution Agreements (the “**Announcement**”).

In view of the prospective expiry of the 2019 Yuen Tai Master Distribution Agreement and the 2019 SZ Kingworld Lifeshine Master Distribution Agreement, the Board announced that on 20 November 2019 (after trading hours), (1) HK Kingworld, a wholly-owned subsidiary of the Company, entered into the 2020 Yuen Tai Master Distribution Agreement with Yuen Tai for the purchase of the Yuen Tai Products for the three years ending 31 December 2022, and (2) SZ Kingworld, a wholly-owned subsidiary of the Company, entered into the 2020 SZ Kingworld

LETTER FROM VINCO CAPITAL

Lifeshine Master Distribution Agreement with SZ Kingworld Lifeshine for the purchase of the SZ Kingworld Lifeshine Products for the three years ending 31 December 2022 and proposed to renew their respective annual caps for the three years ending 31 December 2022.

Based on the 2020 Yuen Tai Master Distribution Agreement and the 2020 SZ Kingworld Lifeshine Master Distribution Agreement, the Company proposed the annual caps in respect of the maximum annual payable by the Group to the relevant connected supplier under the 2020 Master Distribution Agreements for each of the three years ending 31 December 2022 and seek the Independent Shareholder's approval as required under Chapter 14A of the Listing Rules.

Listing Rules implication

Both Yuen Tai and SZ Kingworld Lifeshine are companies wholly-owned by Morning Gold, which is in turn 51% held by Mr. Zhao and 49% held by Ms. Chan, respectively. Both of Mr. Zhao and Ms. Chan are executive Directors and Controlling Shareholders of the Company. Therefore, each of Yuen Tai and SZ Kingworld Lifeshine is a connected person of the Company and the transactions under each of the 2020 Master Distribution Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the transactions contemplated under the 2020 Master Distribution Agreements are to be made with Yuen Tai and SZ Kingworld Lifeshine, and these two companies are indirectly wholly-owned by Mr. Zhao and Ms. Chan, such transactions shall be aggregated in accordance with Rule 14A.81 of the Listing Rules.

Other than Mr. Zhao and Ms. Chan, no Director is materially interested in the transactions under each of the 2020 Master Distribution Agreements and is required to abstain from voting on the Board resolutions to approve such agreements.

The Company will convene the EGM to obtain the approval from the Independent Shareholders in respect of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022. Mr. Zhao, Ms. Chan, Golden Land and Golden Morning are Controlling Shareholders of the Company, therefore each of them and their respective associate(s) are connected persons (as defined under the Listing Rules) of the Company. Golden Land and Golden Morning are investment holding companies. Pursuant to Rule 14A.70(12) of the Listing Rules, where independent shareholders' approval is required with regard to a connected transaction, any connected person with a material interest in such transaction and any shareholder with a material interest in such transaction and its associates, will not vote on such transaction. Accordingly, Mr. Zhao, Ms. Chan, Golden Land and Golden Morning and their respective associate(s) shall at the EGM abstain from voting in respect of the resolutions to approve the 2020 Master Distribution Agreements.

LETTER FROM VINCO CAPITAL

Since one or more of the applicable percentage ratios in respect of the aggregate of the proposed annual caps for the transactions contemplated under the 2020 Master Distribution Agreements is/are expected to exceed 5%, the transactions thereunder are subject to the reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether (i) the 2020 Master Distribution Agreements have been entered into by the Group within its ordinary and usual course of business based on normal commercial terms and their respective terms and conditions, are fair and reasonable and in the interests of the Company and the Shareholders as a whole; (ii) the proposed annual caps are reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) to advise the Independent Shareholders whether to vote in favour of the 2020 Master Distribution Agreements and the proposed annual caps.

In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of the Listing Rules, our role is to give an independent opinion as to whether transactions under each of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022 are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are on normal commercial terms or better and in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

Our Independence

We have been appointed and approved by the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. As at the Latest Practicable Date, we were not aware of any relationships or interest between us and the Company or any parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.80 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the terms of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We are not aware of the existence of or change in any circumstances that would affect our independence. We have not acted as a financial adviser to the Company in the last two years. Accordingly, we consider that we are eligible to give independent advice on the terms of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022.

LETTER FROM VINCO CAPITAL

B. BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the terms of the 2020 Master Distribution Agreements and their respective proposed annual caps, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at as at the date of the Circular and that all expectations and intentions of the Directors, the management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the management. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors and the management. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

We consider that we have reviewed all currently available information and documents, among others: (i) the annual report of the Company for the year ended 31 December 2018 (ii) the interim report of the Company for the six months ended 30 June 2019; (iii) the Announcements of the Company dated 20 November 2019 and 24 December 2019 in relation to the entering into 2020 Master Distribution Agreements and the 2020 Yuen Tai Supplemental Agreement; (iv) the 2020 Yuen Tai Master Distribution Agreement and its supplemental agreement; (v) the 2020 SZ Kingworld Lifeshine Master Distribution Agreement and its supplemental agreement; (vi) historical transactions and their respective samples between the Group and all connected persons under the 2017 SZ Kingworld Lifeshine Master Distribution Agreement, 2017 Yuen Tai Master Distribution Agreement, 2018 SZ Kingworld Lifeshine Master Distribution Agreement, 2018 Yuen Tai Master Distribution Agreement, 2019 SZ Kingworld Lifeshine Master Distribution Agreement and 2019 Yuen Tai Master Distribution Agreement; (vii) the basis and assumption of the transactions contemplated under the 2020 Master Distribution Agreements and their supplemental agreements; (viii) pricing policy of the 2020 Master Distribution Agreements and their supplemental agreements; (ix) calculation basis

LETTER FROM VINCO CAPITAL

and assumptions considered by the Group; (x) the minutes of the meeting of the board of directors of the Company dated 20 November 2019, (xi) the internal control measures governing continuing connected transactions, (xii) the independent auditor's assurance report on continuing connected transactions dated 27 March 2019; (xiii) the profit calculation standard issued by the department of finance dated 31 December 2018; and (xiv) the ingredients information of Fengbao Jianfu Capsule and Pu Ji Kang Gan Granule which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the terms of the 2020 Master Distribution Agreements and their respective proposed annual caps, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in respect of the terms of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022 and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole in part, nor shall this letter be used for any other purposes, without our prior written consent.

C. PRINCIPAL FACTORS AND REASON CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of the terms of the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022, we have taken into account the principal factors and reasons set out below:

2020 Master Distribution Agreements

1. *Background*

i. Information of the Group

The Group is principally engaged in the distribution of pharmaceutical and healthcare products in the PRC and Hong Kong.

ii. Information on Yuan Tai

Yuen Tai is principally engaged in the manufacturing of pharmaceutical and healthcare products.

iii. SZ Kingworld Lifeshine

SZ Kingworld Lifeshine is principally engaged in the manufacturing of pharmaceutical and healthcare products.

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iv. SZ Kingworld

SZ Kingworld is principally engaged in the distribution of imported branded pharmaceutical and healthcare products in the PRC. As at 30 November 2019, SZ Kingworld managed a portfolio of eleven categories, which include more than 60 products, including pharmaceutical products, healthcare products, general foodstuffs and medical products from suppliers or manufacturers from Japan, the United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. The products distributed by SZ Kingworld include Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kawai Product Range, Flying Eagle Wood Lok Medicated Oil and Mentholatum Product Series.

v. HK Kingworld

HK Kingworld is principally engaged in the distribution of imported branded healthcare products in Hong Kong and Macao, including the Culturelle (康萃樂) probiotics product series from the United States, which is a leading brand in the probiotics product market in the United States and the probiotics product brand for children most recommended by pediatricians in the United States. The distribution channels of Culturelle's sales terminal sites in Hong Kong and Macao include Mannings, Watsons, SaSa, Colourmix, CR Care, HealthPlus, Eugene Baby, Yue Wah Chinese Products, AEON Stores, HKTV Mall and a number of pharmacies.

2. *Reasons for and benefits of the 2020 Master Distribution Agreement*

As disclosed in the Letter from the Board, the Group is principally engaged in the distribution of pharmaceutical and healthcare products in the PRC. The pharmaceutical and healthcare products distributed by the Group are supplied by various suppliers including Yuen Tai and SZ Kingworld Lifeshine.

In view of the expiry of the 2019 SZ Yuen Tai Master Distribution Agreement and 2019 Kingworld Lifeshine Master Distribution Agreement, the Company has entered the 2020 Yuen Tai Master Distribution Agreement and 2020 SZ Kingworld Lifeshine Master Distribution Agreement in order to renew the above mentioned distribution agreements for a term of three years effect from 1 January 2020 to 31 December 2022.

Also, as disclosed in the Letter from the Board, a long term and steady relationship with the suppliers is of importance to the Group as it enables stability in the supply to the Group which in turn avoids any unnecessary disruption to the Group's business and guarantees a smooth operation of the Group. As confirmed by the management of the Company and disclosed in the prospectus dated 12 November 2010, the Group has already purchased the pharmaceutical and healthcare products from Yuen Tai and SZ Kingworld Lifeshine since 21 October 2010. As such, we are of the view that the Group can maintain long term relationships with Yuen Tai and SZ Kingworld Lifeshine by entering into the 2020 Master Distribution Agreements.

LETTER FROM VINCO CAPITAL

Pursuant to the 2020 Master Distribution Agreements, the products to be purchased by the Group are on an exclusive basis and the prices of such products should be on normal commercial terms and no less favourable than those offered by the independent third parties which provide similar products in the market. As such, the Group may gain competitive advantage in terms of costs. As the Group will act as the exclusive distributor for distribution of such products in the Greater China, the Group may avoid competition with other distributors with respect to the same products in the market.

Having considered the above, and particularly, the entering into the 2020 Master Distribution Agreements will (i) maintain the Group's long term relationship with Yuen Tai and SZ Kingworld Lifeshine and enable the stability in the supply to the Group which in turn ensures a smooth operation of the Group's distribution business; (ii) widen the product coverage for exclusive distribution; and (iii) enhance the Group's competitiveness and advantages in costs, we are of the view that the entering into of the 2020 Master Distribution Agreement, together with the adoption of the annual caps, are conducted in the ordinary and usual course of the Group's business and are in the interests of both the Company and the Shareholders as a whole.

A. Principal terms of the 2020 Yuen Tai Master Distribution Agreement

- 1. Date:** 20 November 2019
(as supplemented by the 2020 Yuen Tai Supplemental Agreement dated 24 December 2019)
- 2. Parties:** (a) HK Kingworld, a wholly-owned subsidiary of the Company; and (b) Yuen Tai.
- 3. Description of the transactions:** Pursuant to the 2020 Yuen Tai Master Distribution Agreement, HK Kingworld or the wholly owned subsidiary of the Company shall purchase the Yuen Tai Products, which mainly include Fengbao Jianfu Capsule and Pu Ji Kang Gan Granules, from Yuen Tai and act as the exclusive distributor for distribution of the Yuen Tai Products in the Greater China.
- 4. Condition precedent:** The 2020 Yuen Tai Master Distribution Agreement shall take effect subject to and conditional upon obtaining the Independent Shareholders' approval in respect of the 2020 Yuen Tai Master Distribution Agreement and the proposed annual caps for the transactions under the agreement.
- 5. Term:** The 2020 Yuen Tai Master Distribution Agreement is for a term of three years with effect from 16 January 2020 or the date on which the 2020 Yuen Tai Master Distribution Agreement and the proposed annual caps for the transactions under the agreement are approved by the Independent Shareholders (whichever is later) and ending on 31 December 2022 (both days inclusive).

LETTER FROM VINCO CAPITAL

- 6. Pricing Policy:** The 2020 Yuen Tai Master Distribution Agreement was negotiated and entered into on an arm's length basis and on normal commercial terms. The terms and conditions (including but not limited to the prices) on which the Yuen Tai Products are to be purchased by the Group should be on normal commercial terms and, where there is comparable product available in the market, should be no less favourable than those obtained from independent third parties by the Group. The Group will satisfy the consideration of such purchases by its internal resources.

The prices of the Yuen Tai Products to be purchased by the Group will be based on the prevailing market prices of similar products and the unit prices of the Yuen Tai Products from time to time and will be no less favourable to the Group than those terms offered by other independent third parties suppliers, where there is comparable product available in the market.

The actual amounts, types, unit prices, delivery dates and methods of delivery of the Yuen Tai Products to the Group will be subject to individual orders placed by the Group and accepted by Yuen Tai. To the extent that a comparison can be made (subject to similar nature, quality, quantity of purchase and conditions of the products and/or services), the Company and/or HK Kingworld shall use its best efforts to obtain price offered from at least two independent third parties for comparison purposes (if applicable), to determine whether the prices and/or terms offered by Yuen Tai are fair and reasonable, and are similar to or more favourable than those offered by the independent third party(ies). The Group shall have the right to terminate or cancel the transactions if the terms and conditions are less favourable to the Group than those offered by other independent third parties suppliers. 40% of the purchase price shall be paid in advance by the Group within three days after the Group has placed an order for each batch of products and the remaining balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection.

Regarding the pricing policy of purchase the Yuen Tai Products from Yuen Tai, we have also reviewed the lists of transactions under the 2017 Yuen Tai Master Distribution Agreement and 2018 Yuen Tai Master Distribution Agreement covering the period from 1 January 2017 to 28 May 2018 and 6 selected samples of purchase invoices and their relevant contracts for the purchase of the Yuen Tai Products which represents all the transactions occurred in the period mentioned above. As confirmed with the management of the Group that the Yuen Tai Products are exclusive products and there is no product with the same formula sold in the market for the company to compare the price. Given the uniqueness of the product we have obtained and reviewed both the ingredients information of Fengbao Jianfu Capsule and Pu Ji Kang Gan Granule which described the function of products and ingredients for our reference, we understand there is no applicable comparison of the price offered by the independent third party(ies). Also, there is no example of the Yuen Tai Products that the Company could obtain independent samples of price comparison due to their uniqueness up to the Latest Practicable Date. According to the profit calculation standard issued by the department of finance dated 31 December 2018, the price would be accepted with reference to a minimum profit margin of approximately 25% on average to ensure no loss making for purchasing the Yuen Tai Products. We have noted that the profit margin of the Company's product from Yuen Tai is not lower than the required minimum margin and is no less favourable than the pharmaceutical products

LETTER FROM VINCO CAPITAL

supplied by other independent suppliers. In addition, as set out above, the Group shall have the right to terminate or cancel the transactions if the terms and conditions are less favourable to the Group than those offered by other independent suppliers and the Group is not obliged to purchase products from Yuen Tai if other independent suppliers are able to offer products to the Group at more favourable terms and as such, we are of the view that such arrangement is fair and reasonable and is in the interests of the Company and Shareholders as a whole.

We have also obtained samples of purchase invoices issued by Yuen Tai to the Group in relation to the transactions under the 2017 Yuen Tai Master Distribution Agreement and the corresponding purchase information including but not limited to the relevant contracts and proof of payments on similar products with Yuen Tai. We have noticed the selling price of the products to the Company's distributors are higher than the purchase price and in favour of the Company.

As advised by the Directors, since the Group is the sole distributor of the Yuen Tai Products, Yuen Tai only manufactures and sells its pharmaceutical and healthcare products to the Group. Therefore, the deposit of the purchase price is necessary for Yuen Tai to procure new materials and for the payment of expenses in relation to the manufacturing of the pharmaceutical and healthcare products. As disclosed in the payment terms under the 2020 Yuen Tai Master Distribution Agreement, 40% of the purchase price shall be paid in advance by the Group within three days after the Group has placed an order for each batch of products and the remaining balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection. Also, we have reviewed the purchase contracts in relation to pharmaceutical and healthcare products from other independent suppliers and noted that it is a common practice for suppliers to require payment of deposits upon ordering from the Group for the last three years. From the samples we have obtained from the Company, we found that approximately three quarters of the independent suppliers require the purchasers to pay fully before they deliver the products and the remaining independent suppliers require 50% of the purchase price to pay in advance within three days after the purchasers has placed an order. Also, the purchasers could report to the independent suppliers regarding the product inspection within three to ten days after the delivery of products and the products would be considered as being satisfied and accepted by the purchasers if there are no comments from the Group after the period. In light of the above, we are of the view that the payment terms offered by Yuen Tai to the Company are no less favourable than terms offered by independent supplier regardless their required prepayments and the credit period. Therefore, we consider the payment term of the 2020 Yuen Tai Master distribution Agreement is reasonable.

In the light of the above and in particular that: (i) the pricing policy of the Group is similar to those of other listed companies; (ii) the unit prices offered by Yuen Tai would not be higher than the selling price to ensure there is a profit for the Company; (iii) the Group has the right to terminate or cancel the transactions if the terms and conditions are less favourable to the Group than those offered by other independent suppliers; and (iv) the payment term of the Group has no significant inconsistency with the market practice, we are of the view that the terms of the 2020 Yuen Tai Master Distribution Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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B. Basis of the proposed annual caps in respect of the 2020 Yuen Tai Master Distribution Agreement

Review of historical figures

The following table sets out the historical transaction amounts and the annual caps between the Group and Yuen Tai in respect of the purchase and distribution of Yuen Tai Products under the 2017 Yuen Tai Master Distribution Agreement for the year ended 31 December 2017, the 2018 Yuen Tai Master Distribution Agreement for the year ended 31 December 2018 and the 2019 Yuen Tai Master Distribution Agreement for the ten months ended 31 October 2019:

Continuing connected transactions Purchase of Yuen Tai Products	For the year ended 31 December 2017 <i>(equivalent to approximately)</i>		For the year ended 31 December 2018 <i>(equivalent to approximately)</i>		For the ten months ended 31 October 2019 <i>(equivalent to approximately)</i>	
	<i>(HKD)</i> <i>Audited</i>	<i>(RMB)</i>	<i>(HKD)</i> <i>Audited</i>	<i>(RMB)</i>	<i>(HKD)</i> <i>Unaudited</i>	<i>(RMB)</i>
Actual transaction amount	3,379,000	3,175,000	15,000	13,000	nil	nil
Historical annual caps	6,320,000	5,366,000	8,900,000	7,556,000	3,670,000	3,233,000
Utilisation rate (based on the historical annual caps)	53.5%		0.2%		0%	

For two years ended 31 December 2018 and for the ten months ended 31 October 2019, the total amount of historical transactions of Yuen Tai Products purchased by the Group from Yuen Tai were approximately HKD3,379,000, HKD15,000 and nil respectively. As at the Latest Practicable Date, the purchase of Yuen Tai Products did not exceed the annual caps.

Proposed annual caps

The following table sets out the respective proposed annual caps of the continuing connected transactions under the 2020 Yuen Tai Master Distribution Agreement for the three years ending 31 December 2022:

2020 Yuan Tai Master Distribution Agreement	For the year ending 31 December 2020 <i>(equivalent to approximately)</i>		For the year ending 31 December 2021 <i>(equivalent to approximately)</i>		For the year ending 31 December 2022 <i>(equivalent to approximately)</i>	
	<i>(HKD)</i>	<i>(RMB)</i>	<i>(HKD)</i>	<i>(RMB)</i>	<i>(HKD)</i>	<i>(RMB)</i>
Proposed annual caps	4,740,000	4,242,000	9,968,000	8,921,000	13,781,000	12,334,000

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We noted that HK Kingworld has not purchased any pharmaceutical and healthcare products from Yuen Tai since 28 May 2018 and up to the Latest Practicable Date. Therefore, there is no historical amount of purchase of Yuen Tai Products in 2019. As disclosed in the letter from the board, HK Kingworld did not purchase any Yuen Tai Products during such period due to the delay in obtaining production certification (which was expired since 29 October 2015) by Yuen Tai for the supply of the Yuen Tai Products, Fengbao Jianfu Capsule, which was an uncontrollable one-off incident. According to the confirmation from the Company, the related production certification was obtained from the Import Drugs Approval Notice from the State Food and Drug Administration of the PRC* (國家食品藥品監督管理局) (“SFDA”) in early November 2019, with an effective period till to 29 November 2023. Also, based on our discussion with the management, the Company has obtained a one-off permit from SFDA that an exemption of importing Fengbao Jianfu Capsule had granted to the Company and allowed the Company to purchase and import a limited amount of the product in 2017. We also noticed that the transaction amount for the year ended 31 December 2018 was relatively low due to the delay in obtaining production certification by Yuen Tai for the supply of the Yuen Tai Products as explained above. However, as discussed with the Company, we understand the small amount of Yuen Tai Products were purchased as sample and do not require the certificate or approval from SFDA but a certificate of registration of proprietary Chinese medicine issued by the Chinese Medicines Board in Hong Kong Special Administrative Region.

In our assessment of the reasonableness of the proposed annual caps under the 2020 Yuen Tai Master Distribution Agreement, we have reviewed the estimation of the Group on the total purchases of the Yuen Tai Products from Yuen Tai for the three financial years ending 31 December 2022 and the underlying bases and assumptions respectively. As stated in the Letter from the Board, the Directors have taken into account the following factors in arriving at the proposed annual caps under the 2020 Yuen Tai Master Distribution Agreement:

- (i) the historical figures of the actual transaction amounts of the transactions under the 2017 Yuen Tai Master Distribution Agreement for the year ended 31 December 2017, the 2018 Yuen Tai Master Distribution Agreement for the year ended 31 December 2018 and the 2019 Yuen Tai Master Distribution Agreement for the ten months ended 31 October 2019; and
- (ii) the expected demand for different pharmaceutical and healthcare products from customers based on the three-year sales forecast received from the Group’s main distributor. The proposed annual caps are calculated by multiplying the planned purchase amount by the estimated unit price of the products.

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We have discussed with the Company regarding the above factors, and we concur with the Company's view that it is reasonable and in the interests of both the Company and the Shareholders to set the Yuen Tai annual caps at the proposed levels, after taking into consideration the following:

- (i) the purchase forecast of Yuen Tai Products for the three years ending 31 December 2022 proposed by the management of the Group. The planned purchase amount for the Yuen Tai Products is approximately 0.3 million boxes, 0.4 million boxes and 0.5 million boxes for the coming three years respectively;
- (ii) the purchase order issued by an independent third party to the Company and we noted that the demand is approximately 90% of the expected total quantity to be purchased from Yuen Tai in the three years ending 31 December 2022 accordingly;
- (iii) the estimated volume of the Yuen Tai Products is expected to be increased by 10% annually during the three years ending 31 December 2022 taking into account of the purchase order made by the independent third party as discussed in point (ii); and
- (iv) the estimated average purchase price of the Yuen Tai Products would not be higher than the sales price for the Company to contribute to its customers and the expected profit.

C. Conclusion

Based on the factors and reason discussed above, we are of the view that the proposed annual caps for the 2020 Yuen Tai Master Distribution Agreement were set by the Company after due and careful consideration and are reasonable so far as the Shareholders are concerned and in the interests of both the Company and the Shareholders as whole.

D. Principal terms of the 2020 SZ Kingworld Lifeshine Master Distribution Agreement

1. **Date:** 20 November 2019
(as supplemented by the 2020 SZ Kingworld Lifeshine Supplemental Agreement dated 24 December 2019)
2. **Parties:** (a) SZ Kingworld, a wholly-owned subsidiary of the Company; and (b) SZ Kingworld Lifeshine.
3. **Description of the transactions:** Pursuant to the 2020 SZ Kingworld Lifeshine Master Distribution Agreement, SZ Kingworld or the wholly owned subsidiary of the Company shall purchase the SZ Kingworld Lifeshine Products, which mainly include Imada Red Flower Oil, Kingworld Gan Mao Qing Capsule and products

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under the Kingworld American Ginseng series, from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of the SZ Kingworld Lifeshine Products in the Greater China.

4. **Condition precedent:** The 2020 SZ Kingworld Lifeshine Master Distribution Agreement shall take effect subject to and conditional upon obtaining the Independent Shareholders' approval in respect of the 2020 SZ Kingworld Lifeshine Master Distribution Agreement and the proposed annual caps for the transactions under the agreement.
5. **Term:** The 2020 SZ Kingworld Lifeshine Master Distribution Agreement is for a term of three years with effect from 16 January 2020 or the date on which the 2020 SZ Kingworld Lifeshine Master Distribution Agreement (whichever is later) and the proposed annual caps for the transactions under the agreement are approved by the Independent Shareholders and ending on 31 December 2022 (both days inclusive).
6. **Pricing Policy:** The 2020 SZ Kingworld Lifeshine Master Distribution Agreement was negotiated and entered into on an arm's length basis and on normal commercial terms. The terms and conditions (including but not limited to the prices) on which the SZ Kingworld Lifeshine Products are to be purchased by the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by the Group. The Group will satisfy the consideration of such purchases by its internal resources.

The prices of the SZ Kingworld Lifeshine Products to be purchased by the Group will be based on the prevailing market prices of similar products and the unit prices of the SZ Kingworld Lifeshine Products from time to time and will be no less favourable to the Group than those terms offered by other independent third parties suppliers.

The actual amounts, types, unit prices, delivery dates and methods of delivery of the SZ Kingworld Lifeshine Products to the Group will be subject to individual orders placed by the Group and accepted by SZ Kingworld Lifeshine. To the extent that a comparison can be made (subject to similar nature, quality, quantity of purchase and conditions of the products and/or services), the Company and/or SZ Kingworld shall use its best efforts to obtain price quotations from at least two independent third parties for comparison purposes (if applicable), to determine whether the prices and/or terms offered by SZ Kingworld Lifeshine are fair and reasonable, and are similar to or more favourable than those offered by the independent third party(ies). The Group shall have the right to terminate or cancel the transactions if the terms and conditions are less favourable to the Group than those offered by other independent third parties suppliers. 40% of the purchase price shall be paid in advance by the Group within three days after the Group has placed an order for each batch of products and the remaining balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection.

Regarding the pricing policy of purchase the SZ Kingworld Lifeshine Products from SZ Kingworld Lifeshine, we have reviewed other continuing connected transactions in relation to purchases made by the listed companies from their connected persons and noted that their

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pricing policies are similar to the above one under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement, it is not uncommon that listed companies on the Stock Exchange will obtain quotations from at least two independent suppliers to assess whether the purchase of the similar products from the connected person is on normal commercial terms. Also as discussed below, the Group has adopted the above pricing policy in the past and we have also reviewed the lists of transactions under the 2017 SZ Kingworld Lifeshine Master Distribution Agreement, 2018 SZ Kingworld Lifeshine Master Distribution Agreement and 2019 SZ Kingworld Lifeshine Master Distribution Agreement covering period from 1 January 2017 to 31 October 2019 and selected ten samples of purchase invoice and their relevant contracts for the purchase of the SZ Kingworld Lifeshine Products randomly from the lists of transactions. The samples represented not less than 5% of the total number of transactions contemplated under the 2017 SZ Kingworld Lifeshine Master Distribution Agreement, 2018 SZ Kingworld Lifeshine Master Distribution Agreement and 2019 SZ Kingworld Lifeshine Master Distribution Agreement respectively. Since only Imada Red Flower Oil were purchased for the period of 1 January 2017 to 31 October 2019, we believe the selected samples are exhaustive and do not have significant differences of the remaining transactions and the number of selected samples is also sufficient to represent the pricing policy which the Group has adopted in the period from 1 January 2017 to 31 October 2019. As confirmed with the management of the Group that the Company would conduct a search on the market price of similar products sold by other independent third parties and consider these references in relation to the unit price for similar products in the market and noted that the price of the SZ Kingworld Lifeshine Products offered by SZ Kingworld Lifeshine was no less favourable than those offered by other independent suppliers. In addition, as set out above, the Group shall have the right to terminate or cancel the transactions if the terms and conditions are less favourable to the Group than those offered by other independent suppliers and the Group is not obliged to purchase products from SZ Kingworld Lifeshine if other independent suppliers are able to offer products to the Group at more favourable terms and as such, we are of the view that such arrangement is fair and reasonable and is in the interests of the Company and Shareholders as a whole.

As mentioned above, we have obtained ten samples of purchase invoices issued by SZ Kingworld Lifeshine to the Group in relation to the transactions under the 2017 SZ Kingworld Lifeshine Master Distribution Agreement, 2018 SZ Kingworld Lifeshine Master Distribution Agreement, 2019 SZ Kingworld Lifeshine Master Distribution Agreement and also the corresponding purchase information on similar products with SZ Kingworld Lifeshine and other independent suppliers. We have compared the unit prices and terms of the purchase from the Group to those of independent third parties and have found them to be no less favourable than, those offered by independent third parties. Up to the Latest Practicable Date, there are no products under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement having difficulty to obtain price quotations from at least two independent third parties for comparison purposes to determine whether the prices and/or the terms offered by SZ Kingworld Lifeshine are fair and reasonable, and are similar to or more favourable than those offered by the independent third party(ies). If the price comparison is not applicable, the price offered by SZ Kingworld Lifeshine would be accepted by the Group with reference to a minimum profit margin of approximately 25% on average to ensure no loss making for purchasing the SZ Kingworld Lifeshine Products. We have noted that the profit margin of the Company's product from SZ Kingworld Lifeshine is no less favourable than the pharmaceutical products supplied by other independent suppliers.

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As advised by the Directors, since the Group is the sole distributor of the SZ Kingworld Lifeshine Products, SZ Kingworld Lifeshine only manufacturers and sells its Imada Red Flower Oil to the Group. Therefore, the deposit of the purchase price is necessary for SZ Kingworld Lifeshine to procure new materials and for the payment of expenses in relation to the manufacturing of the pharmaceutical and healthcare products. As disclosed in the payment terms under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement, 40% of the purchase price shall be paid in advance by the Group within three days after the Group has placed an order for each batch of products and the remaining balance of the purchase price shall be paid upon delivery of the products and the passing of the product inspection. Also, we have reviewed the purchase contracts in relation to pharmaceutical and healthcare products from other independent suppliers and noted that it is a common practice for suppliers to require payment of deposits upon ordering from the Group for the last three years. From the samples we have obtained from the Company, we found that approximately three quarters of the independent suppliers require the purchasers to pay fully before they deliver the products and the remaining independent suppliers require 50% of the purchase price to pay in advance within three days after the purchasers has placed an order. Also, the purchasers could report to the independent suppliers regarding the product inspection within three to ten days after the delivery of products and the products would be considered as being satisfied and accepted by the purchasers if there are no comments from the Group after the period. In light of the above, we are of the view that the payment terms offered by SZ Kingworld Lifeshine to the Company are no less favourable than terms offered by independent supplier regardless their required prepayments and the credit period. Therefore, we consider the payment term of the 2020 SZ Kingworld Lifeshine Master distribution Agreement is reasonable.

In the light of the above and in particular that: (i) the pricing policy of the Group is similar to those of other listed companies; (ii) the unit prices and the terms of purchase offered by SZ Kingworld Lifeshine are no less favourable than those offered by other independent suppliers; (iii) the Group has the right to terminate or cancel the transactions if the terms and conditions are less favourable to the Group than those offered by other independent suppliers and (iv) the payment term of the Group has no significant inconsistency with the market practice, we are of the view that the terms of the 2020 SZ Kingworld Lifeshine Master Distribution Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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E. Basis of the proposed annual caps in respect of the 2020 SZ Kingworld Lifeshine Master Distribution Agreement

Review of historical figures

The following table sets out the historical transaction amounts and the annual caps between the Group and SZ Kingworld Lifeshine in respect of the purchase and distribution of SZ Kingworld Lifeshine Products under the 2017 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2017, the 2018 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2018 and the 2019 SZ Kingworld Lifeshine Master Distribution Agreement for the ten months ended 31 October 2019:

Continuing connected transactions	For the year ended 31 December 2017		For the year ended 31 December 2018		For the ten months ended 31 October 2019	
Purchase of SZ Kingworld Lifeshine Products	<i>(equivalent to approximately)</i>		<i>(equivalent to approximately)</i>		<i>(equivalent to approximately)</i>	
	<i>(HKD)</i>	<i>(RMB)</i>	<i>(HKD)</i>	<i>(RMB)</i>	<i>(HKD)</i>	<i>(RMB)</i>
	<i>Audited</i>		<i>Audited</i>		<i>Unaudited</i>	
Actual transaction amount	10,618,000	9,187,000	13,817,000	11,664,000	12,232,000	10,839,000
Historical annual caps	27,748,000	24,340,000	25,807,000	21,910,000	23,156,000	20,400,000
Utilisation rate (based on the historical annual caps)		38.3%		53.5%		52.8%

For two years ended 31 December 2018 and for the ten months ended 31 October 2019, the total amount of historical transactions of SZ Kingworld Lifeshine Products purchased by the Group from SZ Kingworld Lifeshine were approximately HKD10,618,000, HKD13,817,000 and HKD12,232,000 respectively. As confirmed by the management of the Company, the total amount of SZ Kingworld Lifeshine Products purchased from SZ Kingworld Lifeshine was approximately RMB13,878,000 for the eleven months ended 30 November 2019. As at the Latest Practicable Date, the purchase of SZ Kingworld Lifeshine Products did not exceed the annual caps.

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Proposed annual caps

The following table sets out the respective proposed annual caps of the continuing connected transactions under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement for the three years ending 31 December 2022:

2020 Yuan Tai	For the year ending 31 December 2020		For the year ending 31 December 2021		For the year ending 31 December 2022	
Master	<i>(equivalent to</i>		<i>(equivalent to</i>		<i>(equivalent to</i>	
Distribution	<i>approximately)</i>		<i>approximately)</i>		<i>approximately)</i>	
Agreement	<i>(HKD)</i>	<i>(RMB)</i>	<i>(HKD)</i>	<i>(RMB)</i>	<i>(HKD)</i>	<i>(RMB)</i>
Proposed annual caps	24,884,000	22,271,000	27,372,000	24,498,000	30,110,000	26948,000

In our assessment of the reasonableness of the proposed annual caps under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement, we have reviewed the estimation of the Group on the total purchases of the SZ Kingworld Lifeshine Products from SZ Kingworld Lifeshine for the three years ending 31 December 2022 and the underlying bases and assumptions respectively. As stated in the Letter from the Board, the Directors have taken into account the following factors in arriving at the proposed annual caps under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement:

- (i) the historical figures of the actual transaction amounts of the transactions under the 2017 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2017, the 2018 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2018 and the 2019 SZ Kingworld Lifeshine Master Distribution Agreement for the ten months ended 31 October 2019; and
- (ii) the expected demand for different pharmaceutical and healthcare products from customers. The proposed annual caps are calculated by multiplying the planned purchase amount by the estimated unit price of the product.

We have discussed with the Company regarding the above factors, and we concur with the Company's view that it is reasonable and in the interests of both the Company and the Shareholders to set the SZ Kingworld Lifeshine annual caps at the proposed levels, after taking into consideration the following:

- (i) the purchase of SZ Kingworld Lifeshine Products forecast for the three years ending 31 December 2022 proposed by the management of the Group. The planned purchase amount for SZ Kingworld Lifeshine Products is approximately 4.0 million bottles, 4.4 million bottles and 4.9 million bottles for the coming three years, represents an increase of 10% each year;

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- (ii) the expected expansion of its distribution scale resulting in a possible increase in the value of transactions to be entered into between the Group and SZ Kingworld Lifeshine. As confirmed by the management of the Company, the retail outlets of the Group will be increased from approximately 51,000 branches as at the end of November 2019 to approximately 79,000 branches at the end of December 2020. The Company believes the above business strategies will be continued in the forthcoming year. The increasing rate of purchasing amount at each branch varies and the increasing number of retail outlets is only one of the factors which contributes to the amount of products to be purchased. As confirmed with the management of the Company, each branch may require different quantity of products to be stored according to below considerations including but not limited to its location, the target customers around its location, the trend of the products around the area where the outlet is located, the turnover and the size of the outlet. Therefore, the increasing rate of purchasing amount and the increasing rate of branches to be opened are not strongly correlated but still positively related.;
- (iii) Based on the increasing number of retail outlet to be opened in the coming three years as discussed in point (ii), the sales of SZ Kingworld Lifeshine Products is expected to be increased by approximately 60% from the eleven months ended 30 November 2019 to the year ending 31 December 2020. The Company believes the number of purchases would be demanded accordingly and therefore forecasts an increase in purchase from SZ Kingworld Lifeshine of approximately 60% to meet the market demand;
- (iv) the expected growth of the demand for different pharmaceutical and healthcare products from customers due to the restructuring of the management of SZ Kingworld and the expansion of the Group's distribution network as discussed in point (i). The new operational strategies initiated by the new management encourage the sales to be grown, such as customer reward scheme, advertisement in different regions, staff training for sales and so forth, which would stimulate the demand of products accordingly;
- (v) the estimated volume of the SZ Kingworld Lifeshine Products is expected to be increased by 10% annually during the three years ending 31 December 2022 taking into account of the proposed sales planned by the management of the Company which was based on the increasing trend of sales of Imada Red Flower Oil in 2019. We noted that the increase of sales is approximately 39% from the period of January to May 2019 to the period of June to October 2019. Furthermore, the sales transaction amounts for the ten months ended 31 October 2019 increased by approximately 20.93% as compared to the transaction amounts for ten months ended 31 October 2018; and
- (vi) the estimated average purchase price of the SZ Kingworld Lifeshine Products is expected according to the quotation provided by SZ Kingworld Lifeshine.

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F. Conclusion

Based on the factors and reason discussed above, we are of the view that the proposed annual caps of the 2020 SZ Kingworld Lifeshine Master Distribution Agreement were set by the Company after due and careful consideration and are reasonable so far as the Shareholders are concerned and in the interests of both the Company and the Shareholders as whole.

INTERNAL CONTROL MEASURES GOVERNING THE 2020 MASTER DISTRIBUTION AGREEMENTS

As confirm by the Director, the Company will adopted the following internal control procedures to govern the continuing connected transactions of the Company under the 2020 Master Distribution Agreements:

- (i) The internal control department of the Group (the “Internal Control Department”) will manage and monitor the transactions to be entered under the 2020 Distribution Agreements. The Internal Control Department will conduct review on the prices of products of similar specification and quality in the market on an annual basis and ensure that the purchase prices of the Yuen Tai Products and SZ Kingworld Lifeshine Products are fair and reasonable and where there is no comparable product available in the market, the purchase price should be determined by arm’s length basis and on normal commercial terms. We have assessed the internal control policy for continuing connected transactions of the Group and we are of the view that such internal control procedure abided by the internal control framework can effectively assure that the existing and possible future agreements entered and to be entered with any connected parties are and will be on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders. According to the profit calculation standard issued by the department of finance dated 31 December 2018, the purchase price offered by Yuen Tai and SZ Kingworld Lifeshine would be accepted with reference to a minimum profit margin of approximately 25% on average to ensure no loss making for purchasing the products from the connected suppliers. We also noted that the profit margin of the Yuen Tai Products is not lower than the required minimum margin and is no less favourable than the pharmaceutical products supplied by other independent suppliers. As such, we are of the view that the internal control measures are sufficient for both products without price comparison in the market and products which can be compared with independent third party(ies).

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- (ii) As confirmed by the management of the Company, the Internal Control Department will closely monitor and record the transaction amount of each order under the 2020 Master Distribution Agreements, conduct price comparison on an annual basis, submit the procurement plans and status reports to the executive Directors and the company secretary of the Company on a monthly basis, and report to the audit committee of the Board on a semi-annual basis. We believe this control procedures could ensure that the proposed annual caps will not be exceeded and the continuing connected transactions are conducted in accordance with the pricing policies under the 2020 Master Distribution Agreements.
- (iii) The management of the Company will discuss with the independent non-executive Directors if there is any potential compliance issue during the term of the 2020 Master Distribution Agreements and where necessary, seek advice from professional parties such as legal advisers and/or auditor.
- (iv) The independent non-executive Directors will perform annual review pursuant to Rule 14A.55 of the Listing Rules on whether the transactions under the 2020 Master Distribution Agreements are conducted (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the 2020 Master Distribution Agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (v) The Company's auditor will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually and confirm pursuant to Rule 14A.56 of the Listing Rules on, among others, whether (a) the transactions under the 2020 Master Distribution Agreements have been approved by the Board; (b) the transactions were entered into, in all material respects, in accordance with the 2020 Master Distribution Agreements governing the transactions; and (c) the relevant proposed annual caps have not been exceeded. We have reviewed the independent auditor's assurance report on continuing connected transactions dated 27 March 2019 in relation to the 2018 SZ Kingworld Lifeshine Master Distribution Agreement and 2018 Yuen Tai Master Distribution Agreement. As such we are of the view that the Company's auditor will review as the previous year for the transactions under the 2020 Master Distribution Agreements to confirm whether the transactions thereunder not to exceed the annual cap on a yearly basis.

RECOMMENDATION

Having taken the above principal factors and reasons, we considered that (i) the 2020 Master Distribution Agreements are in the ordinary and usual course of business of the Group; (ii) the terms of the 2020 Master Distribution Agreements are fair and reasonable, and that it is in the interests of the Company and the Shareholders as a whole to enter into the Proposed Transactions with Yuen Tai and SZ Kingworld Lifeshine respectively; and (iii) the proposed annual caps for the three years ending 31 December 2022 for each of the 2020 Master Distribution Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Accordingly, we advise the Independent Board Committee to recommend, the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM approving the 2020 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2022.

Yours faithfully,
For and on behalf of
Vinco Capital Limited
Alister Chung
Managing Director

Note: Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Vinco Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong for over 10 years.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes 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 in this circular misleading.

2. DISCLOSURE OF INTERESTS

The Directors' or chief executive's interests or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) *Interests in the shares in the Company*

Name of Directors	Capacity/Nature of interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Mr. Zhao ^(Note 1)	Beneficial owner	17,104,000	2.75%
	Interest of spouse	90,744,000	14.58%
	Interest of a controlled corporation	297,812,250	47.84%
Ms. Chan ^(Note 2)	Beneficial owner	744,000	0.12%
	Interest of spouse	314,916,250	50.59%
	Interest of a controlled corporation	90,000,000	14.46%
Zhou Xuhua ^(Note 3)	Beneficial owner	744,000	0.12%
	Interest of spouse	3,800,000	0.61%
Duan Jidong ^(Note 4)	Beneficial owner	660,000	0.11%

Name of Directors	Capacity/Nature of interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Wong Cheuk Lam ^(Note 4)	Beneficial owner	660,000	0.11%
Zhang Jianbin ^(Note 4)	Beneficial owner	660,000	0.11%

Notes:

1. In addition to 17,104,000 shares which are beneficially owned by Mr. Zhao, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 388,556,250 shares in the Company. These shares are held in the following capacities:
 - (a) 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.
 - (b) 744,000 shares are held by Ms. Chan, the spouse of Mr. Zhao, in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 744,000 shares held by Ms. Chan and 90,000,000 shares held by Golden Morning.
2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 405,660,250 shares in the Company. These shares are held in the following capacities:
 - (a) 744,000 shares are held by Ms. Chan in her own name and 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.
 - (b) 17,104,000 shares are held by Mr. Zhao, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 17,104,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.
3. 744,000 shares are held by Mr. Zhou Xuhua (“**Mr. Zhou**”) in his own name and Mr. Zhou is also deemed (by virtue of the SFO) to be interested in 3,800,000 shares in the Company held by his spouse, Ms. Huang Xiaoli.
4. Interests in options granted pursuant to the share option scheme of the Company (the “**Share Option Scheme**”).

(II) Long positions in the underlying shares – share options under the Share Option Scheme

Name of Directors	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK\$) (Note 4)	Outstanding as at 1 January 2019	Grant during the year	Cancelled during the year	Lapsed during the year	Outstanding as at Latest Practicable Date	Approximate percentage of the Company's total issued share capital
Mr. Zhao (Note 1)	1 June 2015	1 June 2015 to 31 May 2019	2.54	208,000	-	-	(208,000)	-	-
	23 April 2018	23 April 2018 to 22 April 2024	1.26	468,000	-	-	-	468,000	0.0751%
Ms. Chan (Note 2)	1 June 2015	1 June 2015 to 31 May 2019	2.54	188,000	-	-	(188,000)	-	-
	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	-	-	-	416,000	0.0668%
Zhou Xuhua	1 June 2015	1 June 2015 to 31 May 2019	2.54	188,000	-	-	(188,000)	-	-
	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	-	-	-	416,000	0.0668%
Duan Jidong	1 June 2015	1 June 2015 to 31 May 2019	2.54	164,000	-	-	(164,000)	-	-
	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	-	-	-	372,000	0.0597%
Zhang Jiabin	1 June 2015	1 June 2015 to 31 May 2019	2.54	164,000	-	-	(164,000)	-	-
	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	-	-	-	372,000	0.0597%
Wong Cheuk Lam	1 June 2015	1 June 2015 to 31 May 2019	2.54	164,000	-	-	(164,000)	-	-
	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	-	-	-	372,000	0.0597%
Total				3,492,000	-	-	(1,076,000)	2,416,000	0.3881%

Note 1: Mr. Zhao is also a substantial shareholder of the Company through his beneficial interest, interests of spouse and controlled corporation.

Note 2: Ms. Chan (being the spouse of Mr. Zhao) is also a substantial shareholder of the Company through interests of spouse and controlled corporation.

Note 3: The vesting and exercise of certain Share Options are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.

Note 4: The closing price of the share on the date of grant of share options on 1 June 2015 and 23 April 2018 was HK\$2.45 and HK\$1.26, respectively.

(III) Interests in the shares of the associated corporations of the Company

Name of Directors	Name of associated corporations	Capacity/Nature of interest	Percentage of shareholding
Mr. Zhao	Golden Land	Beneficial owner	100%
Ms. Chan	Golden Morning	Beneficial owner	100%

As at Latest Practicable Date, save as disclosed above, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, save as the following leases by SZ Kingworld from SZ Industry, an indirect wholly-owned subsidiary of Kingkok Investment Holdings Limited (金國投資控股有限公司), which is 80% held by Mr. Zhao and 20% held by Ms. Chan, none of the Directors had any direct or indirect interest in any assets which have since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group:

- (i) Rooms 201, 302 and 303 of Building 331, Lian Tang Gang Lian Er Cun, Shenzhen (深圳市蓮塘港蓮二村331棟201、302、303室) with a site area of approximately 224.37 square meters, for accommodation purpose, for a term commencing from 1 July 2019 to 30 June 2020, at a monthly rental of RMB12,200 (the “**Property Lease Agreement**”); and
- (ii) ten advertising space on the external wall, west door and three sides of the advertising space of Jin Shi Jie Business Center, Dongmen, Shenzhen (深圳市東門金世界商業中心外牆及西門口上方和三面翻廣告位), for advertising purpose, for a term commencing from 1 January 2020 to 31 December 2020, at a rental of RMB150,000 per year (the “**Advertising Space Lease Agreement**”).

As at the Latest Practicable Date, none of the Directors were materially interested, directly or indirectly, in any subsisting contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group.

4. INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, save as the 2020 Master Distribution Agreements, none of the Directors and their respective close associates were interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

5. SERVICE CONTRACT

As at the Latest Practicable Date, there was no existing or proposed service contract between any of the Directors and the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. LANGUAGE

The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

7. EXPERT AND CONSENT

The following are the qualifications of the expert whose letter or advice is contained in this circular:

Name	Qualifications
Vinco Capital	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Vinco Capital, the Independent Financial Adviser, has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name included in the form and context in which they respectively appear.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in any member of the Group nor did it have any 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, the Independent Financial Adviser did not have any direct or indirect interest in any assets which have been, since 31 December 2018 (being the date to which the latest published audited accounts of the Group were made up), 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.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Group were made up.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Units 1906-1907, 19th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong for a period of 14 days (excluding Saturdays and Sundays) from the date of this circular:

- (i) the 2020 Yuen Tai Master Distribution Agreement;
- (ii) the 2020 SZ Kingworld Lifeshine Master Distribution Agreement;

- (iii) the letter dated 31 December 2019 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 21 to 22 of this circular;
- (iv) the opinion letter dated 31 December 2019 from the Independent Financial Adviser, the text of which is set out on pages 23 to 43 of this circular;
- (v) the Property Lease Agreement;
- (vi) the Advertising Space Lease Agreement;
- (vii) the written consent issued by the Independent Financial Adviser as referred in the paragraph headed “Expert and Consent” in this appendix; and
- (viii) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01110)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Kingworld Medicines Group Limited (the “**Company**”) will be held at 9th Floor, Block A, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, The PRC on Thursday, 16 January 2020 at 10:00 a.m. for the following purposes, and unless otherwise defined herein, the terms herein shall have the same meanings as defined in the circular to the shareholders of the Company dated 31 December 2019 (the “**Circular**”):

As a special business, to consider and, if thought fit, pass, with or without amendments, the following resolutions as ordinary resolutions:

- 1 To consider and approve the transactions under the 2020 Yuen Tai Master Distribution Agreement and the proposed annual caps for the three years ending 31 December 2022, details of which are set out in the Circular.
- 2 To consider and approve the transactions under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement and the proposed annual caps for the three years ending 31 December 2022, details of which are set out in the Circular.
- 3 To generally and unconditionally authorise any one director of the Company or any other person(s) authorised by the directors to do all such acts and things, to sign and execute all such further documents for and on behalf of the Company, and to take such steps as he/she may in his/her absolute discretion consider necessary, appropriate, desirable or expedient to give effect to the 2020 Master Distribution Agreements and the transactions contemplated thereunder.

By order of the Board
Kingworld Medicines Group Limited
Zhao Li Sheng
Chairman

Hong Kong, 31 December 2019

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder who is the holder of two or more shares in the Company may appoint more than one proxy to represent him/her and vote on his/her behalf at the meeting. A proxy need not be a member of the Company but must be present in person to represent him/her.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited ("**Branch Registrar**") at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 48 hours before the time appointed for holding of the meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint registered holders of a share in the Company, any one of such joint holders may vote, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

As at the date of this notice, the executive Directors are Mr. Zhao Li Sheng, Ms. Chan Lok San, and Mr. Zhou Xuhua, and the independent non-executive Directors are Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam.