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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 or other registered dealer in securities, 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 2023
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



VINCO CAPITAL LIMITED

A letter from the Board is set out on pages 7 to 23 of this circular.

A letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders, is set out on pages 24 to 25 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 26 to 50 of this circular.

A notice convening the EGM to be held at the Conference Room, 9th Floor, Block A, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, the PRC on Thursday, 27 May 2021 at 10:30 a.m. (or immediately after the conclusion of the annual general meeting of the Company) (or any adjournment thereof) is set out on pages 58 to 59 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.

10 May 2021

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	7
Letter from the Independent Board Committee	24
Letter from Vinco Capital	26
Appendix – General Information	51
Notice of Extraordinary General Meeting	58

DEFINITIONS

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

“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 ended 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 ended 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
“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

DEFINITIONS

“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
“2021 Master Distribution Agreements”	collectively, (i) the 2021 Yuen Tai Master Distribution Agreement; and (ii) the 2021 SZ Kingworld Lifeshine Master Distribution Agreement
“2021 Medical Masks Distribution Agreement”	the master distribution agreement dated 30 December 2020 entered into between SZ Kingworld and SZ Kingworld Lifeshine for the purchase of medical masks for the period from 1 January 2021 to 31 December 2021
“2021 Medical Masks Service Agreement”	the service agreement dated 30 December 2020 entered into between the Company and SZ Kingworld Lifeshine for the sales coordination and market research services in relation to the direct sales of medical masks by SZ Kingworld Lifeshine for the period from 1 January 2021 to 31 December 2021
“2021 SZ Kingworld Lifeshine Master Distribution Agreement”	the master distribution agreement dated 1 April 2021 entered into between SZ Kingworld and SZ Kingworld Lifeshine for the purchase of the SZ Kingworld Lifeshine Products
“2021 Yuen Tai Master Distribution Agreement”	the master distribution agreement dated 1 April 2021 entered into between HK Kingworld and Yuen Tai for the purchase of the Yuen Tai Products
“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

DEFINITIONS

“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
“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 the Conference Room, 9th Floor, Block A, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, the PRC on Thursday, 27 May 2021 at 10:30 a.m. (or immediately after the conclusion of the annual general meeting of the Company) (or any adjournment thereof) for the purpose of considering, and if thought fit, approving the 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023
“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
“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

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the 2021 Yuen Tai Master Distribution Agreement, the 2021 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 2021 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”	6 May 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“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
“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

DEFINITIONS

“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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Regatta Office Park
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

Principal Place of Business in Hong Kong:

Units 1906-1907, 19th Floor
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

10 May 2021

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ANNUAL CAPS FOR THE THREE YEARS
ENDING 31 DECEMBER 2023
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

(1) INTRODUCTION

Reference is made to the announcement of the Company dated 1 April 2021 in relation to, inter alia, the 2021 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 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023 (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) 2021 MASTER DISTRIBUTION AGREEMENTS

A. Background

Reference is made to the announcements of the Company dated 20 November 2019 and 24 December 2019 and the circular of the Company dated 31 December 2019 in respect of the continuing connected transactions with Yuen Tai and SZ Kingworld Lifeshine contemplated under the 2020 Yuen Tai Master Distribution Agreement and the 2020 SZ Kingworld Lifeshine Master Distribution Agreement, respectively.

Due to the increase in demand in Imada Red Flower Oil by our independent sub-distributor and consequently additional orders are expected to be placed with SZ Kingworld Lifeshine by our Group in the second half of 2021, the Board anticipates that the proposed annual caps for the transactions contemplated under the 2020 Master Distribution Agreements will exceed the existing annual caps for the two years ending 31 December 2022 under the 2020 Master Distribution Agreements. Set out below are the existing annual caps under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement for the three years ending 31 December 2022:

	Annual cap for the year ended 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	RMB24,498,000	RMB26,948,000
		<i>(equivalent to approximately)</i>	
	HK\$24,884,000	HK\$27,372,000	HK\$30,110,000

LETTER FROM THE BOARD

In addition, taking into account the expected market demand of the Yuen Tai Products under the current market condition, the Board evaluated the proposed annual caps for the transactions contemplated under the 2020 Yuen Tai Master Distribution Agreement and the term of the 2020 Yuen Tai Master Distribution Agreement. Set out below are the existing annual caps under the 2020 Yuen Tai Master Distribution Agreement for the three years ending 31 December 2022:

	Annual cap for the year ended 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

Therefore, on 1 April 2021 (after trading hours) (1) HK Kingworld, a wholly-owned subsidiary of the Company, entered into the 2021 Yuen Tai Master Distribution Agreement with Yuen Tai for the purchase of the Yuen Tai Products for a term commencing from 27 May 2021 or the date on which the 2021 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 2023 (both days inclusive); and (2) SZ Kingworld, a wholly-owned subsidiary of the Company, entered into the 2021 SZ Kingworld Lifeshine Master Distribution Agreement with SZ Kingworld Lifeshine for the purchase of the SZ Kingworld Lifeshine Products for a term commencing from 27 May 2021 or the date on which the 2021 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 2023 (both days inclusive).

Details of the 2021 Master Distribution Agreements are as follows:

B. 2021 Yuen Tai Master Distribution Agreement

1. Date: 1 April 2021

2. Parties:

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

(b) Yuen Tai

3. Description of the transactions:

Pursuant to the 2021 Yuen Tai Master Distribution Agreement, HK Kingworld or the wholly owned subsidiary of the Company shall purchase the Yuen Tai Products from Yuen Tai and HK Kingworld shall act as the exclusive distributor for distribution of the Yuen Tai Products in the Greater China.

LETTER FROM THE BOARD

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 2021 Yuen Tai Master Distribution Agreement and the proposed annual caps for the transactions under the agreement.

5. *Term:*

The 2021 Yuen Tai Master Distribution Agreement is for a term commencing from 27 May 2021 or the date on which the 2021 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 2023 (both days inclusive).

6. *Pricing and payment terms:*

The 2021 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 (based on the ingredients and formulae of the 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 the Group will make profit from the distribution of the Yuen Tai Products. The minimum profit margin of approximately 25% on average for the Yuen Tai Products is determined with reference to the average profit margin of the Group's business of distribution sales of pharmaceutical and healthcare products.

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 (based on the ingredients and formulae of the products), 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). As the Group is the exclusive distributor for distribution of the Yuen Tai Products in the Greater China, the Yuen Tai Products are exclusively sold to the Group by Yuen Tai. The Yuen Tai Products are unique in terms of ingredients and formula. To the best knowledge of

LETTER FROM THE BOARD

the Company, for all the Yuen Tai Products, there is no comparable product with the same ingredients and/or formula available in the market which the Company can use for price comparison. Given price comparison is not available for the Yuen Tai Products, the Group will only accept the price with reference to a minimum profit margin of approximately 25% on average to ensure the Group will make profit from the distribution of the Yuen Tai Products. In addition, under the 2021 Yuen Tai Master Distribution Agreement, 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 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.

There are no pre-defined selling prices of the Yuen Tai Products in the 2021 Yuen Tai Master Distribution Agreement. In general, Yuen Tai will provide the Group with fee quotes on the Yuen Tai Products on an annual basis. If the fee quotes on the Yuen Tai Products are acceptable by the Group after the Group has conducted price comparison (if comparable product is available in the market) and/or meet the minimum profit margin requirement as set out above, the price set out in the fee quote will be set as the actual unit price of the Yuen Tai Products in the purchase orders to be placed with Yuen Tai. If the fee quote is not accepted by the Group, the Group will re-negotiate with Yuen Tai on the price of the Yuen Tai Products based on the pricing policies set out above.

Taking into consideration of the above, the Board considers the above assessment can ensure the fairness and reasonableness of the selling prices of the Yuen Tai Products to the Group.

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. The Group will only place orders with Yuen Tai upon receiving purchase orders from its customers.

Since the Group is the exclusive distributor of the Yuen Tai Products in the Greater China, 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. When compared with the purchase contracts in relation to pharmaceutical and healthcare products which the Group entered into with other independent suppliers in 2020 and 2021, it is a common practice for suppliers to require payment of deposits upon ordering from the Group. Therefore, the Company considers that the pre-payment arrangement is fair and reasonable.

LETTER FROM THE BOARD

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 2018 Yuen Tai Master Distribution Agreement for the year ended 31 December 2018, under the 2019 Yuen Tai Master Distribution Agreement for the year ended 31 December 2019, under the 2020 Yuen Tai Master Distribution Agreement for the year ended 31 December 2020 and the annual cap under the 2018 Yuen Tai Master Distribution Agreement for the year ended 31 December 2018, under the 2019 Yuen Tai Master Distribution Agreement for the year ended 31 December 2019 and the annual cap under the 2020 Yuen Tai Master Distribution Agreement for the year ended 31 December 2020:

	Audited transaction amount for the year ended 31 December 2018		Audited transaction amount for the year ended 31 December 2019		Audited transaction amount for the year ended 31 December 2020		Unaudited transaction amount for the three months ended 31 March 2021
	Annual cap for the year ended 31 December 2018	Annual cap for the year ended 31 December 2018	Annual cap for the year ended 31 December 2019	Annual cap for the year ended 31 December 2019	Annual cap for the year ended 31 December 2020	Annual cap for the year ended 31 December 2020	
Purchase of Yuen Tai Products	HK\$15,000	HK\$8,900,000	HK\$nil	HK\$3,670,000	HK\$1,824,000	HK\$4,470,000	HK\$nil [#]
	RMB13,000	RMB7,556,000	RMBnil	RMB3,233,000	RMB1,623,000	RMB4,242,000	RMBnil

Due to the pandemic, there was a significant reduction in the trading activities and the corresponding implementation of the infection prevention measures such as the lockdowns and closure of borders in 2020. The medical related facilities were fully deployed to fight the pandemic and therefore the sale of Fengbao Jianfu Capsule dropped sharply in the market. Hence, the Group and its customers have sufficient inventories of the Yuen Tai Products in the first half of 2021 and the Group did not purchase any Yuen Tai Products for the three months ended 31 March 2021.

The relatively low transaction amount for the year ended 31 December 2018 was mainly due to the delay in obtaining the production certification for Fengbao Jianfu Capsule issued by the National Medical Products Administration of the PRC (國家藥品監督管理局) 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. A production certificate is required by Yuen Tai for its sale of Fengbao Jianfu Capsule in the PRC. There was no transaction under the 2019 Yuen Tai Master Distribution Agreement for the year ended 31 December 2019 since the relevant production certificate was only obtained by the Group in November 2019.

LETTER FROM THE BOARD

8. Proposed annual caps:

Set out below are the proposed annual caps under the 2021 Yuen Tai Master Distribution Agreement for the three years ending 31 December 2023:

	Annual cap for the year ending 31 December 2021	Annual cap for the year ending 31 December 2022	Annual cap for the year ending 31 December 2023
Purchase of Yuen Tai Products	HK\$5,620,000	HK\$10,700,000	HK\$11,770,000
		<i>(equivalent to approximately)</i>	
	RMB4,734,000	RMB9,014,000	RMB9,915,000

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 2018 Yuen Tai Master Distribution Agreement for the year ended 31 December 2018, under the 2019 Yuen Tai Master Distribution Agreement for the year ended 31 December 2019, under the 2020 Yuen Tai Master Distribution Agreement for the year ended 31 December 2020 and (unaudited actual transaction amount) for the three months ended 31 March 2021. The Directors are of the view that there was no transaction under the 2019 Yuen Tai Master Distribution Agreement for the year ended 31 December 2019 due to the delay in obtaining production certification by Yuen Tai for the supply of the Yuen Tai Products, which was an uncontrollable one-off incident. The related production certification was obtained in early November 2019 and is valid till 29 November 2023. The Directors do not foresee any delay in obtaining/renewing the production certificate upon the expiry of the existing production certificate; 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 planned purchase amount is determined based on:

- (i) the updated purchase forecast plan of Yuen Tai Products for the three years ending 31 December 2023 proposed by the management of the Group after evaluating the current market condition;
- (ii) the purchase order issued by an independent third party to the Company at the end of 2020 and the demand on average is above approximately 90% of the expected total quantity to be purchased from Yuen Tai in the coming three years ending 31 December 2023; and

LETTER FROM THE BOARD

- (iii) the estimated quantity of the Yuen Tai Products is expected to increase by 25% from 2021 to 2022 and by 10% from 2022 to 2023 taking into account of the purchase order made by an independent third party.

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.

9. *Termination of the 2020 Yuen Tai Master Distribution Agreement:*

Upon the commencement of the term of the 2021 Yuen Tai Master Distribution Agreement, the 2020 Yuen Tai Master Distribution Agreement shall be terminated with immediate effect.

C. 2021 SZ Kingworld Lifeshine Master Distribution Agreement

1. *Date:* 1 April 2021

2. *Parties:*

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

(b) SZ Kingworld Lifeshine

3. *Description of the transactions:*

Pursuant to the 2021 SZ Kingworld Lifeshine Master Distribution Agreement, SZ Kingworld or a wholly-owned subsidiary of the Company shall purchase the SZ Kingworld Lifeshine Products from SZ Kingworld Lifeshine and SZ Kingworld shall act as the exclusive distributor for distribution of the SZ Kingworld Lifeshine Products in the Greater China.

4. *Condition precedent:*

The 2021 SZ Kingworld Lifeshine Master Distribution Agreement shall take effect subject to and conditional upon obtaining the Independent Shareholders' approval in respect of the 2021 SZ Kingworld Lifeshine Master Distribution Agreement and the proposed annual caps for the transactions under the agreement.

5. *Term:*

The 2021 SZ Kingworld Lifeshine Master Distribution Agreement is for a term commencing from 27 May 2021 or the date on which the 2021 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 2023 (both days inclusive).

LETTER FROM THE BOARD

6. Pricing and payment terms:

The 2021 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 (based on the ingredients and formulae of the 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, where there is comparable product available in the market. 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 the Group will make profit from the distribution of the SZ Kingworld Lifeshine Products. The minimum profit margin of approximately 25% on average for the SZ Kingworld Lifeshine Products is determined with reference to the average profit margin of the Group's business of distribution sales of pharmaceutical and healthcare 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 (based on the ingredients and formulae of the products), quality, quantity of purchase and conditions of the products and/or services), the Company and/or SZ Kingworld shall conduct research on the market price of similar products sold by other independent third parties and 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). In addition, under the 2021 SZ Kingworld Lifeshine Master Distribution Agreement, 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 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.

There are no pre-defined selling prices of the SZ Kingworld Lifeshine Products in the 2021 SZ Kingworld Lifeshine Master Distribution Agreement. In general, SZ Kingworld Lifeshine will provide the Group with fee quotes on the SZ Kingworld Lifeshine Products on an annual basis. If the fee quotes on the SZ Kingworld Lifeshine Products are acceptable by the Group after the Group has conducted price comparison (if comparable product is available in the market) and/or meet the minimum profit margin requirement as set out above, the price set out in the fee quote will be set as the actual unit price of the SZ Kingworld Lifeshine Products in the purchase orders to be placed with SZ Kingworld Lifeshine. If the fee quote is not accepted by the Group, the Group will re-negotiate with SZ Kingworld Lifeshine on the price of the SZ Kingworld Lifeshine Products based on the criterion set out above.

LETTER FROM THE BOARD

Taking into consideration of the above, the Board considers the above assessment can ensure the fairness and reasonableness of the selling prices of the SZ Kingworld Lifeshine Products to the Group.

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. The Group will only place orders with SZ Kingworld Lifeshine upon receiving purchase orders from its customers.

Since the Group is the exclusive distributor of the SZ Kingworld Lifeshine Products in the Greater China, SZ Kingworld Lifeshine only manufactures 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. When compared with the purchase contracts in relation to pharmaceutical and healthcare products which the Group entered into with other independent suppliers in 2020 and 2021, it is a common practice for suppliers to require payment of deposits upon ordering from the Group. Therefore, the Company considers that the pre-payment arrangement is fair and reasonable.

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 2018 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2018, under the 2019 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2019 and under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2020, the annual caps under the 2018 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2018, under the 2019 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2019 and under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2020:

	Audited transaction amount for the year ended 31 December 2018		Audited transaction amount for the year ended 31 December 2019		Audited transaction amount for the year ended 31 December 2020		Unaudited transaction amount for the three months ended 31 March 2021
	Annual cap for the year ended 31 December 2018	Annual cap for the year ended 31 December 2018	Annual cap for the year ended 31 December 2019	Annual cap for the year ended 31 December 2019	Annual cap for the year ended 31 December 2020	Annual cap for the year ended 31 December 2020	Annual cap for the year ended 31 March 2021
Purchase of SZ Kingworld Lifeshine Products	RMB11,664,000	RMB21,910,000	RMB10,839,000	RMB20,400,000	RMB22,170,000	RMB22,271,000	RMB8,940,000
			<i>(equivalent to approximately)</i>				
	HK\$13,817,000	HK\$25,807,000	HK\$12,232,000	HK\$23,156,000	HK\$24,914,000	HK\$24,884,000	HK\$10,678,000

LETTER FROM THE BOARD

8. *Proposed annual caps:*

Set out below are the proposed annual caps under the 2021 SZ Kingworld Lifeshine Master Distribution Agreement for the three years ending 31 December 2023:

	Annual cap for the year ending 31 December 2021	Annual cap for the year ending 31 December 2022	Annual cap for the year ending 31 December 2023
Purchase of SZ Kingworld Lifeshine Products	RMB39,180,000 HK\$46,510,000	RMB44,280,000 HK\$52,564,000	RMB52,280,000 HK\$62,061,000
	<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 2018 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2018, under the 2019 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2019 and under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2020 and (unaudited actual transaction amount) for the three months ended 31 March 2021; 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.

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.

9. *Termination of the 2020 SZ Kingworld Lifeshine Master Distribution Agreement:*

Upon the commencement of the term of the 2021 SZ Kingworld Lifeshine Master Distribution Agreement, the 2020 SZ Kingworld Lifeshine Master Distribution Agreement shall be terminated with immediate effect.

LETTER FROM THE BOARD

D. Reasons for and Benefits in Entering into the 2021 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.

Due to the increase in demand in Imada Red Flower Oil by our independent sub-distributor and consequently additional orders are expected to be placed with SZ Kingworld Lifeshine by our Group in the second half of 2021, the Board anticipates that the proposed annual caps for the transactions contemplated under the 2020 Master Distribution Agreements will exceed the existing annual caps for the two years ending 31 December 2022 under the 2020 Master Distribution Agreements. In addition, taking into account the expected market demand of the Yuen Tai Products under the current market condition, the Board evaluated the proposed annual caps for the transactions contemplated under the 2020 Yuen Tai Master Distribution Agreement and the term of the 2020 Yuen Tai Master Distribution Agreement. Therefore, (1) HK Kingworld entered into the 2021 Yuen Tai Master Distribution Agreement with Yuen Tai; and (2) SZ Kingworld entered into the 2021 SZ Kingworld Lifeshine Master Distribution Agreement with SZ Kingworld Lifeshine.

By entering into the 2021 Master Distribution Agreements, the Group can maintain long term relationships with Yuen Tai and SZ Kingworld Lifeshine.

Pursuant to the 2021 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.

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 2021 Master Distribution Agreements) consider that the terms under each of the 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023 are fair and reasonable and in the interests of the Shareholders as a whole. The opinion of the independent non-executive Directors was formed after taking into account the advice provided by the Independent Financial Adviser, which is set out in the Letter from Vinco Capital in this circular.

LETTER FROM THE BOARD

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.

(d) *SZ Kingworld*

SZ Kingworld is principally engaged in the distribution of imported branded pharmaceutical and healthcare products in the PRC. As at 31 December 2020, 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, Imada Red Flower Oil, Lifeline Care maternal and infant fish oil nutrient product series and CARMEX lipstick 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.

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

LETTER FROM THE BOARD

Company. Therefore, each of Yuen Tai and SZ Kingworld Lifeshine is a connected person of the Company and the transactions under each of the 2021 Master Distribution Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the transactions contemplated under the 2021 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.

Reference is made to the announcement of the Company dated 30 December 2020 in respect of the 2021 Medical Masks Distribution Agreement and the 2021 Medical Masks Service Agreement. Given that the transactions contemplated under the 2021 Medical Masks Distribution Agreement and the 2021 Medical Masks Service Agreement are also to be made with SZ Kingworld Lifeshine, the transactions under the 2021 Master Distribution Agreements, the 2021 Medical Masks Distribution Agreement and the 2021 Medical Masks Service Agreement 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 2021 Master Distribution Agreements, the 2021 Medical Masks Distribution Agreement and the 2021 Medical Masks Service Agreement is/are expected to exceed 5%, the transactions under the 2021 Master Distribution Agreements 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 2021 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.

As Mr. Zhao and Ms. Chan have a material interest in the 2021 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 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023. Other than Mr. Zhao and Ms. Chan, no Director is materially interested in the transactions under each of the 2021 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

LETTER FROM THE BOARD

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 407,628,250 shares in the Company, representing approximately 65.48% 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/she/it had or might have temporarily or permanently passed control over the exercise of the voting right in respect of his/her/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/she/it would control or would be entitled to exercise control over the voting right at the EGM.

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 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023.

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 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023. The letter from the Independent Board Committee and its recommendations to the Independent Shareholders are set out on pages 24 to 25 of this circular, and the opinion letter from the Independent Financial Adviser is set out on pages 26 to 50 of this circular.

LETTER FROM THE BOARD

G. Internal Control Measures Governing the 2021 Master Distribution Agreements

The Group has adopted the following internal control procedures to govern the continuing connected transactions of the Company under the 2021 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 2021 Master 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 2021 Master Distribution Agreements, the Internal Control Department will closely monitor and record the transaction amount of each order under the 2021 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 2021 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 2021 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 2021 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 2021 Master Distribution Agreements have been approved by the Board; (b) the transactions were entered into, in all material respects, in accordance with the 2021 Master Distribution Agreements governing the transactions; and (c) the relevant proposed annual caps have not been exceeded.

LETTER FROM THE BOARD

(3) EXTRAORDINARY GENERAL MEETING AND PROXY ARRANGEMENT

A notice convening the EGM to be held at the Conference Room, 9th Floor, Block A, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, the PRC on Thursday, 27 May 2021, at 10:30 a.m. (or immediately after the conclusion of the annual general meeting of the Company) (or any adjournment thereof) is set out on pages 58 to 59 of this circular. At the EGM, ordinary resolutions will be proposed to approve the transactions under each of the 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023.

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.

(4) RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 24 to 25 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 26 to 50 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 2021 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 (as defined under the letter from the Independent Board Committee) with Yuen Tai and SZ Kingworld Lifeshine, respectively; and (ii) the proposed annual caps for the three years ending 31 December 2023 for each of the 2021 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)

10 May 2021

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED ANNUAL CAPS FOR THE THREE YEARS
ENDING 31 DECEMBER 2023**

We refer to the circular dated 10 May 2021 (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 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023 (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 26 to 50 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 2021 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 2023 for each of the 2021 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 setting out its advice to the Independent Board Committee and the Independent Shareholders prepared in respect of the transactions under each of the 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023 for the purpose of incorporation in this circular:



Vinco Capital Limited

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

10 May 2021

*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 2023

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 transactions under each of the 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023, details of which are set out in the letter from the board (the **“Letter from the Board”**) contained in the circular of the Company dated 10 May 2021 issued to the Shareholders (the **“Circular”**), 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.

Reference is made to the announcement of the Company dated 1 April 2021 in relation to, inter alia, the 2021 Master Distribution Agreements (the **“Announcement”**). Due to the increase in demand in Imada Red Flower Oil by the independent sub-distributor of the Company and consequently additional orders are expected to be placed with SZ Kingworld Lifeshine by the Group in the second half of 2021, the Board anticipates that the proposed annual caps for the transactions contemplated under the 2020 Master Distribution Agreements will exceed the existing annual caps for the two years ending 31 December 2022 under the 2020 Master Distribution Agreements. In addition, taking into account the expected market demand of the Yuen Tai Products under the current market condition, the board evaluated the proposed annual caps for the transactions contemplated under the 2020 Yuen Tai Master Distribution Agreement and the term of the 2020 Yuen Tai Master Distribution Agreement.

LETTER FROM VINCO CAPITAL

Therefore, (1) HK Kingworld, a wholly-owned subsidiary of the Company, entered into the 2021 Yuen Tai Master Distribution Agreement with Yuen Tai for the purchase of the Yuen Tai Products for a term commencing from 27 May 2021 or the date on which the 2021 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 2023 (both days inclusive); and (2) SZ Kingworld, a wholly-owned subsidiary of the Company, entered into the 2021 SZ Kingworld Lifeshine Master Distribution Agreement with SZ Kingworld Lifeshine for the purchase of the SZ Kingworld Lifeshine Products for a term commencing from 27 May 2021 or the date on which the 2021 SZ Kingworld Lifeshine Master Distribution Agreement and the proposed annual caps for the transactions under the agreement are approved by the Independent Shareholders (which is later) and ending on 31 December 2023 (both days inclusive).

Upon the commencement of the term of each of the 2021 Master Distribution Agreements, each of the 2020 Master Distribution Agreements shall be terminated with immediate effect.

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 2021 Master Distribution Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the transactions contemplated under the 2021 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 2021 Master Distribution Agreements are expected to exceed 5%, the transactions under the 2021 Master Distribution Agreements are subject to the reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Zhao and Ms. Chan have a material interest in the 2021 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 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023. Other than Mr. Zhao and Ms. Chan, no Director is materially interested in the transactions under each of the 2021 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 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023.

LETTER FROM VINCO CAPITAL

The Independent Board Committee

The Board currently comprises Mr. Zhao Li Sheng, Ms. Chan Lok San, and Mr. Zhou Xuhua as the executive Directors; and Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam as the independent non-executive Directors.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders whether, among other things, (i) the 2021 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 vote in favour of the 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023.

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 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023 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. We, Vinco Capital, have been appointed and approved by the Board as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Our Independence

As the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We were not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rule to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions under each of the 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023.

LETTER FROM VINCO CAPITAL

Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent 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.

During the past two years, we were appointed as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders in respect of the continuing connected transactions and the proposed annual caps for the three years ending 31 December 2022. Details of the relevant transaction is set out in the circular of the Company dated 31 December 2019. The professional fees in connection with the past appointment have been fully settled and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on, among other things, the transactions under each of the 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023.

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 transactions under each of the 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023, 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 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.

LETTER FROM VINCO CAPITAL

We consider that we have reviewed all currently available information and documents, among others: (i) the annual results of the Company for the year ended 31 December 2020, (ii) the interim report of the Company for the six months ended 30 June 2020; (iii) the Announcement; (iv) the 2021 Yuen Tai Master Distribution Agreement; (v) the 2021 SZ Kingworld Lifeshine Master Distribution Agreement; (vi) the historical transactions between the Group and all connected persons under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement and 2020 Yuen Tai Master Distribution Agreement, and their corresponding samples of transaction documents; (vii) the basis and assumption of the transactions contemplated under 2021 Master Distribution Agreements; (viii) the calculation basis and assumptions considered by the Group; (ix) the minutes of the meeting of the board of Directors of the Company; (x) the internal control measures governing continuing connected transactions; (xi) the independent auditor's assurance report on continuing connected transactions dated 31 March 2021; and (xii) the circular dated 31 December 2019 in relation to the entering into of the 2020 Master Distribution Agreements (the "**Previous Circular**") 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 2021 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 transactions under each of the 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023 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 transactions under each of the 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023, we have taken into account the principal factors and reasons set out below:

2021 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.

LETTER FROM VINCO CAPITAL

ii. Information of Yuen Tai

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

iii. Information of SZ Kingworld Lifeshine

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

iv. Information of SZ Kingworld

SZ Kingworld is principally engaged in the distribution of imported branded pharmaceutical and healthcare products in the PRC. As at 31 December 2020, 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, Imada Red Flower Oil, Lifeline Care maternal and infant fish oil nutrient product series and CARMEX lipstick series.

v. Information of 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.

2. *Reasons for and benefits in entering into the 2021 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. We understand 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 new master distribution agreements.

LETTER FROM VINCO CAPITAL

Due to the increase in demand in Imada Red Flower Oil by the Group's independent sub-distributor and consequently additional orders are expected to be placed with SZ Kingworld Lifeshine by the Group for the second half of 2021, the Board anticipates that the proposed annual caps for the transactions contemplated under the 2020 Master Distribution Agreements will exceed the existing annual caps for the two years ending 31 December 2022 under the 2020 Master Distribution Agreements. In addition, taking into account the expected market demand of the Yuen Tai Products under the current market condition, the Board evaluated the proposed annual caps for the transactions contemplated under the 2020 Yuen Tai Master Distribution Agreement and the term of the 2020 Yuen Tai Master Distribution Agreement. Therefore, (1) HK Kingworld entered into the 2021 Yuen Tai Master Distribution Agreement with Yuen Tai; and (2) SZ Kingworld entered into the 2021 SZ Kingworld Lifeshine Master Distribution Agreement with SZ Kingworld Lifeshine.

Pursuant to the 2021 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.

Having considered the above, and particularly, the entering into the 2021 Master Distribution Agreements will (i) allow the Group to continue purchasing the Yuen Tai Products and SZ Kingworld Lifeshine Products that could meet the expected market demand under the current market condition upon the termination of the 2020 Master Distribution Agreements; (ii) 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; and (iii) widen the product coverage for exclusive distribution, we are of the view that the entering into of the new master distribution agreements, 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.

Principal terms of 2021 Yuen Tai Master Distribution Agreement

- 1. Date:** 1 April 2021
- 2. Parties:** (a) HK Kingworld, a wholly-owned subsidiary of the Company; and (b) Yuen Tai.
- 3. Description of the transactions:** Pursuant to the 2021 Yuen Tai Master Distribution Agreement, HK Kingworld or a wholly-owned subsidiary of the Company shall purchase the Yuen Tai Products from Yuen Tai and HK Kingworld shall act as the exclusive distributor for distribution of the Yuen Tai Products in the Greater China.
- 4. Condition precedent:** The 2021 Yuen Tai Master Distribution Agreement shall take effect subject to and conditional upon obtaining the Independent Shareholders' approval in respect of the 2021 Yuen Tai Master Distribution Agreement and the proposed annual caps for the transactions under the agreement.

LETTER FROM VINCO CAPITAL

5. **Term:** The 2021 Yuen Tai Master Distribution Agreement is for a term commencing from 27 May 2021 or the date on which the 2021 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 2023 (both days inclusive).
6. **Pricing Policy and payment terms:** The 2021 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 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 (based on the ingredients and formulae of the 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 offered by Yuen Tai would be accepted by the Group with reference to a minimum profit margin of approximately 25% on average to ensure the Group will make profit from the distribution of the Yuen Tai Products. The minimum profit margin of approximately 25% on average for the Yuen Tai Products is determined with reference to the average profit margin of the Group's business of distribution sales of pharmaceutical and healthcare products.

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 (based on the ingredients and formulae of the products), 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). As the Group is the exclusive distributor for distribution of the Yuen Tai Products in the Greater China, the Yuen Tai Products are exclusively sold to the Group by Yuen Tai. The Yuen Tai Products are unique in terms of ingredients and formula. To the best knowledge of the Company, for all the Yuen Tai Products, there is no comparable product with the same ingredients and/or formula available in the market which the Company can use for price comparison. Given price comparison is not available for the Yuen Tai Products, the Group will only accept the price with reference to a minimum profit margin of approximately 25% on average to ensure the Group will make profit from the distribution of the Yuen Tai Products. In addition, under the 2021 Yuen Tai Master Distribution Agreement, 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 and the Group is not obliged to purchase products from Yuen Tai if other independent suppliers are able to offer comparable products to the Group at more favourable terms.

LETTER FROM VINCO CAPITAL

There are no pre-defined selling prices of the Yuen Tai Products in the 2021 Yuen Tai Master Distribution Agreement. In general, Yuen Tai will provide the Group with fee quotes on the Yuen Tai Products on an annual basis. If the fee quotes on the Yuen Tai Products are acceptable by the Group after the Group has conducted price comparison (if comparable product is available in the market) and/or meet the minimum profit margin requirement as set out above, the price set out in the fee quote will be set as the actual unit price of the Yuen Tai Products in the purchase orders to be placed with Yuen Tai. If the fee quote is not accepted by the Group, the Group will re-negotiate with Yuen Tai on the price of the Yuen Tai Products based on the pricing policies set out above. If the re-negotiate price is still higher than the price offered by the independent third parties (if comparable product is available in the market) and/or cannot meet the minimum profit margin requirement, the Group has the right to terminate or cancel the transactions.

Taking into consideration of the above, the Board considers the above assessment can ensure the fairness and reasonableness of the selling prices of the Yuen Tai Products to the Group.

As disclosed in the Letter from the Board, 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. The Group will only place orders with Yuen Tai upon receiving purchase orders from its customers.

Since the Group is the exclusive distributor of the Yuen Tai Products in the Greater China, 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. When compared with the purchase contracts in relation to pharmaceutical and healthcare products which the Group entered into with other independent suppliers in 2020 and 2021, it is common practice for suppliers to require payment of deposits upon ordering from the Group. Therefore, the Company considers that the pre-payment arrangement is fair and reasonable.

In order to assess the pricing policy of purchase the Yuen Tai Products from Yuen Tai, we have also reviewed the lists of transactions under the 2020 Yuen Tai Master Distribution Agreement covering the period from 1 January 2020 to 28 February 2021 and selected 2 samples of invoices for the purchase of the Yuen Tai Products which demonstrated the highest and lowest transactions amount for each Yuen Tai Products within the aforementioned period, representing approximately 69% of the total historical transaction amount under the 2020 Yuen Tai Master Distribution Agreement for the year ended 31 December 2020. There was no transactions for the two months ended 28 February 2021. We are of the view that the selected period of the samples would be sufficient since we conducted due diligence for historical purchase transaction of Yuen Tai Products covering the period from 1 January 2017 to 28 May 2018 when we were appointed as the independent financial adviser in respect of the Previous Circular and given that no actual transaction was made in 2019. 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

LETTER FROM VINCO CAPITAL

the uniqueness of the product we have obtained and reviewed the ingredients information of Fengbao Jianfu Capsule and Pu Ji Kang Gan Granule which described the function and ingredients of those products. We have reviewed the formulas of 16 products which share similar function (such as Chinese medicine specialising in female health and common cold) while also being available in the same locations including Hong Kong and mainland China and found that their ingredients are different from Fengbao Jianfu Capsule and Pu Ji Kang Gan Granule regardless the aforementioned two factors such as similar function and same location of its availability. Therefore, there is no applicable comparison of the similar products and no price comparison is available due to their uniqueness up to the Latest Practicable Date.

According to the profit calculation standard issued by the department of finance dated 31 March 2021, the price would be accepted with reference to a minimum profit margin of approximately 25% on average to ensure the Group will make profit from the distribution of 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 hence is favourable to the Company. Pursuant to the internal approval document provided by the Company, we find the profit margin recommended by the Company for the sales of Yuen Tai Products is not lower than 25% for the three years ending 31 December 2023. Also, we have confirmed with Company that the minimum profit margin of approximately 25% on average for the Yuen Tai Products is determined with reference to the average profit margin of the Group's business of distribution sales of pharmaceutical and healthcare products. We believe the minimum profit margin set by the Company is fair and reasonable if Company would follow such recommendation to sell the Yuen Tai Products, taking into account the fact that the profit margin of Yuen Tai Products was not less than 25% on average in the past three years. 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 similar 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.

Pursuant to the samples of purchase invoices issued by Yuen Tai to the Group in relation to the transactions under the 2020 Yuen Tai Master Distribution Agreement and the corresponding purchase information including but not limited to the 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 with the profit margin which the Company targeted at as aforementioned and is 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 manufacturers 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. Pursuant to the payment terms under the 2021 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. We understand the Group will only place orders with Yuen

LETTER FROM VINCO CAPITAL

Tai upon receiving purchase orders from its customers. Also, we have reviewed seven purchase contracts in relation to pharmaceutical and healthcare related products from other independent suppliers covering period from 2019 to 2022 and noted that it is a common practice for suppliers to require payment of deposits upon ordering from the Group. From the samples we have obtained from the Company, we found that the independent suppliers require the purchasers to pay not less than 50% of the purchase price in advance within or not more than three days after the purchasers has placed an order. Therefore, we consider the payment term of the 2021 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 2021 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.

A. Basis of the proposed annual caps in respect of the 2021 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 2020 Yuen Tai Master Distribution Agreement for the year ended 31 December 2020 and three months ended 31 March 2021:

Continuing connected transactions Purchase of Yuen Tai Products	For the year ended 31 December 2020		For the year ending 31 December 2021 (up to 31 March 2021)	
	<i>Audited</i>		<i>Unaudited</i>	
	<i>(equivalent to approximately)</i>		<i>(equivalent to approximately)</i>	
	<i>HKD</i>	<i>RMB</i>	<i>HKD</i>	<i>RMB</i>
Actual transaction amount	1,824,000	1,623,000	nil	nil [#]
Historical annual caps	4,470,000	4,242,000	9,968,000	8,921,000
Utilisation rate (based on the historical annual caps)	40.80%		N/A	

[#] Due to the pandemic, there was a significant reduction in the trading activities and the corresponding implementation of the infection prevention measures such as the lockdowns and closure of borders in 2020. The medical related facilities were fully deployed to fight the pandemic and therefore the sale of Fengbao Jianfu Capsule dropped sharply in the market. Hence, the Group and its customers have sufficient inventories of the Yuen Tai Products in the first half of 2021 and the Group did not purchase any Yuen Tai Products for the three months ended 31 March 2021.

LETTER FROM VINCO CAPITAL

For year ended 31 December 2020, the total amount of historical transactions of Yuen Tai Products purchased by the Group from Yuen Tai were approximately HKD1,824,000. There was no purchase of Yuen Tai Products for the three months ended 31 March 2021. The management of the Group has planned to purchase the first batch of Yuen Tai Products of approximately HKD1.3 million in June 2021.

As disclosed in the circular in relation to the 2020 Master Distribution Agreements dated 31 December 2019, the relatively low transaction amount for the year ended 31 December 2018 was mainly due to the delay in obtaining the production certification for Fengbao Jianfu Capsule issued by the National Medical Products Administration of the PRC* (國家藥品監督管理局) (“NMPA”) by Yuen Tai for the supply of the Yuen Tai Products and that one-off approval of the production certificate expired during the year ended 31 December 2018, which was considered as an uncontrollable one-off incident. A production certificate is required by Yuen Tai for its sale of Fengbao Jianfu Capsule in the PRC. HK Kingworld did not purchase any Yuen Tai Products during the year ended 31 December 2019. There was no transaction under the 2019 Yuen Tai Master Distribution Agreement for the year ended 31 December 2019 since the relevant production certificate was only obtained by the Group in November 2019. We have obtained the latest production certification for Fengbao Jianfu Capsule issued by NMPA dated 30 August 2019 from the Company and noted that the certification is valid till 29 November 2023. Also, the Company has purchased Fengbao Jianfu Capsule from Yuen Tai since 2020 and therefore we cannot see there will be any issue for the Company to purchase the Yuen Tai products due to the omitted drug approval granted by the NMPA in the coming three years. Moreover, the management of the Company confirmed that they do not foresee any delay in obtaining/renewing the production certificate upon the expiry of the existing production certificate. However, there was a significant reduction in trading activities due to the impact caused by the pandemic and the corresponding implementation of the infection prevention measures such as the lockdowns and closure of borders in 2020. Also, as discussed with the management of the Company, the medical related facilities were fully deployed to fight the epidemic and therefore the sales of Fengbao Jianfu Capsule dropped sharply in the market. As such, the actual purchase amount of Fengbao Jianfu Capsule is less than the expected purchase amount in 2020. Hence, the Group has sufficient inventories of the Yuen Tai Products in the first half of 2021 and the Group did not purchase any Yuen Tai Products for the three months ended 31 March 2021. We found there is a reduction of the actual purchase quantity of Yuen Tai Product for the year ended 31 December 2020 by approximately 62% compared with the estimated purchase quantity of Yuen Tai Product at the time when the annual cap for 31 December 2020 was proposed under the 2020 Yuen Tai Master Distribution Agreement. However, based on our discussion with the management of the Company, the purchase quantity of Yuen Tai Product for the two years ending 31 December 2022 shall be conducted as expected under the 2020 Yuen Tai Master Distribution Agreement.

LETTER FROM VINCO CAPITAL

Proposed annual caps

The following table sets out the respective proposed annual caps of the continuing connected transactions under the 2021 Yuen Tai Master Distribution Agreement for the three years ending 31 December 2023:

2021 Yuen Tai Master Distribution Agreement	For the year ending 31 December 2021		For the year ending 31 December 2022		For the year ending 31 December 2023	
	<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>
Proposed annual caps	5,620,000	4,734,000	10,700,000	9,014,000	11,770,000	9,915,000

In our assessment of the reasonableness of the proposed annual caps under the 2021 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 2023 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 2021 Yuen Tai Master Distribution Agreement:

- (i) the historical figures of the actual transaction amounts under the 2018 Yuen Tai Master Distribution Agreement for the year ended 31 December 2018, under the 2019 Yuen Tai Master Distribution Agreement for the year ended 31 December 2019, under the 2020 Yuen Tai Master Distribution Agreement for the year ended 31 December 2020 and (unaudited actual transaction amount) for the three months ended 31 March 2021. The Directors are of the view that there was no transaction under the 2019 Yuen Tai Master Distribution Agreement for the year ended 31 December 2019 due to the delay in obtaining production certification by Yuen Tai for the supply of the Yuen Tai Products, which was an uncontrollable one-off incident. The related production certification was obtained in early November 2019 and is valid till 29 November 2023. The Directors do not foresee any delay in obtaining/renewing the production certificate upon the expiry of the existing production certificate; and
- (ii) the expected demand for different pharmaceutical and healthcare products from customers.

The proposed annual caps are calculated by multiplying the planned purchase quantity by the estimated unit price of the products. Our analysis of the planned purchase quantity and estimated unit price would be provided in point (i) to (iii) and (iv) to (vi) below respectively.

$$\text{Proposed annual caps} = \text{Planned purchase quantity} \times \text{Estimated unit price}$$

LETTER FROM VINCO CAPITAL

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 updated purchase forecast plan of Yuen Tai Products for the three years ending 31 December 2023 proposed by the management of the Group after evaluating the current market condition. We found that the estimated purchase quantity for the Yuen Tai Products are expected to be increased year-to-year for the coming three years according to the forecast. The estimated quantity of the Yuen Tai Products for the two years ending 31 December 2022 remains the same as the forecast made for the Previous Circular;
- (ii) the purchase order issued by an independent third party to the Company at the end of 2020 and we noted that the demand on average is approximately 90% of the expected total quantity to be purchased from Yuen Tai in the coming three years ending 31 December 2023 accordingly;
- (iii) the estimated purchase quantity of the Yuen Tai Products is expected to be increased by 25% from 2021 to 2022 and by 10% from 2022 to 2023 taking into account of the purchase order made by the independent third party as discussed in point (i);
- (iv) the estimated purchase price of Yuen Tai Product would be reduced by approximately between 24% to 47% from the previous proposed annual caps under the 2020 Yuen Tai Master Distribution Agreement to the proposed annual caps contemplated under the 2021 Yuen Tai Master Distribution Agreement for 2021 and 2022. We are advised by the management of the Company that the purchase transaction amounts in 2020 suffered from the adverse impacts of the outbreak of the coronavirus in early 2020, which led to, among other things, the adverse impacts on trading of Yuen Tai Products in the market as explained in the section of "*Review of historical figures*" under "A. Basis of the proposed annual caps in respect of the 2021 Yuen Tai Master Distribution Agreement". As aforementioned, we find the reduction in the estimated purchase price of Yuen Tai Products for 2021 and 2022 from the previous proposal of annual caps under the 2020 Yuen Tai Master Distribution Agreement (the "**Previous Proposal**") to the proposed annual caps under the 2021 Yuen Tai Master Distribution Agreement this time (the "**Current Proposal**"), contributes to the drop in annual caps for 2021 and 2022 from the Previous Proposal to the Current Proposal.

Since the production plan of Yuen Tai Products had been shelved in 2020 due to the aforesaid unexpected situation, the Company did not purchase the expected quantity of Yuen Tai Product in 2020 as outlined in the Previous Circular. As such, the raw materials of Yuen Tai Products are sufficient to produce the expected quantity in 2021 for the Company to purchase pursuant to the letter issued by Yuen Tai regarding the price quotation of the Yuen Tai Products, hence the purchase price of Yuen Tai Products offered to the Company would not be adjusted until 2022 regardless the increasing price of such raw material in the market.

LETTER FROM VINCO CAPITAL

Since the unit price of Yuen Tai Products in 2021 remained unchanged instead of being charged at the expected unit price outlined in the Previous Circular and the unit price will be increased from 2021, the expected unit price of the Yuen Tai Products for the three years ending 31 December 2023 will be increased by approximately 61% from 2021 to 2022 and remain unchanged from 2022 to 2023 according to the updated purchase forecast plan of Yuen Tai Products provided by the Company; As advised by the management of the Group, the expected unit price of the Yuen Tai Products for the year ending 31 December 2023 will not change because Yuen Tai expects that the price of the raw materials is increasing and has planned to purchase the raw materials of the Yuen Tai Products in advance in 2022 in order to lock in the price of the raw material which would not affect the purchase price of the Yuen Tai Products in 2023. The increase in the revised expected unit price of Yuen Tai Products also contributes to the increase in annual caps for Yuen Tai Products by approximately 48% and 10% respectively from 2021 to 2022 and 2022 to 2023 under 2021 Yuen Tai Master Distribution Agreement.

- (v) the market price of the main ingredients of Yuen Tai Products increased sharply according to the market price shown on the website of Kangmei Pharmaceutical Co. Ltd (stock code: 600518) (“**Kangmei**”). Details of the market price we obtained as reference is found in the following link: https://www.kmzyw.com.cn/jiage/today_price.html. Pursuant to the letter issued by the National Development and Reform Commission (the “**DNRC**”) to the Price Bureau of Guangdong Province dated 6 August 2012, Kangmei has been authorised to release the Chinese medicine price index according to the guidance and instruction from DNRC. As such, we believe the market price provided by Kangmei is a reliable source to understand the reasonableness of the price of the main ingredients of Yuen Tai Products. Also, given that the portion of the main ingredients is more than approximately 80% of the total ingredients as confirmed by Yuen Tai and the increase in market price is approximately 80% on average of the main ingredients of Yuen Tai Products, we are of the view that an increase of approximately 60% in the expected purchase price of Yuen Tai Products from 2020 to 2021 is reasonable;
- (vi) the estimated purchase price of the Yuen Tai Products is expected to be charged according to the quotation issued by Yuen Tai which we have obtained from the Company. The estimated 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. Due to the commercial sensitivity and concern of its confidentiality for the Group to carry on of its distribution business, we do not find disclosure of the Group’s estimated average unit price would be in the interest of the Company and the Shareholders as a whole because this would make the Group lose out in the competitive distribution business and make an adverse impact on the Group’s negotiations with suppliers and customers and its market development. However, based on the samples of purchase invoices issued by Yuen Tai and the sales invoice sent to the customers regarding the Yuen Tai Products for the period from 1 January

LETTER FROM VINCO CAPITAL

2020 to 28 February 2021, we found there was a profit margin of approximately 25% on average as the guidance suggested by the Company to ensure the Group will make profit the distribution of the Yuen Tai Products. Hence, we believe the estimated purchase price of the Yuen Tai Products under 2021 Yuen Tai Master Distribution Agreement is reasonable and not less favourable to the Group if such pricing strategy is continually arranged in such approach in the coming three years when price comparison is not applicable.

B. Conclusion

Based on the factors and reason discussed above, we found that the changes in the proposed annual cap are mainly because the drop in unit price of Yuen Tai Products is more than the increase in purchase quantity. As disclosed in the Letter from the Board, there is no transaction in 2019 and the three months ended 31 March 2021. However, we understand the historical figures of the actual transaction for the year ended 31 December 2020 provided the reference of unit purchase price for Company to forecast the estimated transaction for the three years ending 31 December 2023 as discussed in point (iv) above, we are of the view that the proposed annual caps for the 2021 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.

Principal terms of the 2021 SZ Kingworld Lifeshine Master Distribution Agreement

- 1. Date:** 1 April 2021
- 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 2021 SZ Kingworld Lifeshine Master Distribution Agreement, SZ Kingworld or a wholly-owned subsidiary of the Company shall purchase the SZ Kingworld Lifeshine Products from SZ Kingworld Lifeshine and SZ Kingworld shall act as the exclusive distributor for distribution of the SZ Kingworld Lifeshine Products in the Greater China.
- 4. Condition precedent:** The 2021 SZ Kingworld Lifeshine Master Distribution Agreement shall take effect subject to and conditional upon obtaining the Independent Shareholders' approval in respect of the 2021 SZ Kingworld Lifeshine Master Distribution Agreement and the proposed annual caps for the transactions under the agreement.
- 5. Term:** The 2021 SZ Kingworld Lifeshine Master Distribution Agreement is for a term commencing from 27 May 2021 or the date on which the 2021 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 2023 (both days inclusive).

LETTER FROM VINCO CAPITAL

- 6. Pricing Policy:** The 2021 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 (based on the ingredients and formulae of the 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, where there is comparable product available in the market. 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 the Group will make profit from the distribution of the SZ Kingworld Lifeshine Products. The minimum profit margin of approximately 25% on average for the SZ Kingworld Lifeshine Products is determined with reference to the average profit margin of the Group's business of distribution sales of pharmaceutical and healthcare 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 (based on the ingredients and formulae of the products), quality, quantity of purchase and conditions of the products and/or services), the Company and/or SZ Kingworld shall conduct research on the market price of similar products sold by other independent third parties and 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). In addition, under the 2021 SZ Kingworld Lifeshine Master Distribution Agreement, 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 and the Group is not obliged to purchase products from SZ Kingworld Lifeshine if other independent suppliers are able to offer comparable products to the Group at more favourable terms.

There are no pre-defined selling prices of the SZ Kingworld Lifeshine Products in the 2021 SZ Kingworld Lifeshine Master Distribution Agreement. In general, SZ Kingworld Lifeshine will provide the Group with fee quotes on the SZ Kingworld Lifeshine Products on an annual basis. If the fee quotes on the SZ Kingworld Lifeshine Products are acceptable by the Group after the Group has conducted price comparison (if comparable product is available in the market) and/or meet the minimum profit margin requirement as set out above, the price set out in the fee quote will be set as the actual unit price of the SZ Kingworld Lifeshine Products in the purchase orders to be placed with SZ Kingworld Lifeshine. If the fee quote is not accepted by the Group, the Group will re-negotiate with SZ Kingworld Lifeshine on the

LETTER FROM VINCO CAPITAL

price of the SZ Kingworld Lifeshine Products based on the criterion set out above. If the re-negotiate price is still higher than the price offered by the independent third parties (if comparable product is available in the market), the Group has the right to terminate or cancel the transactions.

Taking into consideration of the above, the Board considers the above assessment can ensure the fairness and reasonableness of the selling prices of the SZ Kingworld Lifeshine Products to the Group.

As disclosed in the Letter from the Board, 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. The Group will only place orders with SZ Kingworld Lifeshine upon receiving purchase orders from its customers.

Since the Group is the exclusive distributor of the SZ Kingworld Lifeshine Products in the Greater China, SZ Kingworld Lifeshine only manufactures 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. When compared with the purchase contracts in relation to pharmaceutical and healthcare products which the Group entered into with other independent suppliers in 2020 and 2021, it is a common practice for suppliers to require payment of deposits upon ordering from the Group. Therefore, the Company considers that the pre-payment arrangement is fair and reasonable.

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 pricing policies are similar to the above one under the 2021 SZ Kingworld Lifeshine Master Distribution agreement, that 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 2020 SZ Kingworld Lifeshine Master Distribution Agreement covering period from 1 January 2020 to 28 February 2021 and selected 20 samples demonstrated the highest and lowest transactions amount for each SZ Kingworld Lifeshine Products within the above mentioned period, including but not limited to the purchase invoice and their relevant proof of payment for the purchase of the SZ Kingworld Lifeshine Products. The samples represented approximately 19% and 9% of the total historical transaction amount under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2020 and two months ended 28 February 2021. We are of the view that the selected period of the samples would be sufficient since we conducted due diligence for historical purchase transaction of SZ Kingworld Lifeshine Products covering the period from 1 January 2017 to 31 October 2019 when we were appointed as the Independent Financial Adviser in respect of the Previous Circular. As confirmed with the management of the Group that the

LETTER FROM VINCO CAPITAL

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 20 samples of purchase invoices issued by SZ Kingworld Lifeshine to the Group in relation to the transactions under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement and also the corresponding purchase information on similar products with SZ Kingworld Lifeshine and other independent suppliers. After reviewing the internal market research documents provided by the Company, we have understood the Company compared the unit prices of the products with similar function and ingredients of SZ Kingworld Lifeshine Products offered by the independent third parties to the Group with those offered by SZ Kingworld Lifeshine and have found the price offered by SZ Kingworld Lifeshine to be no less favourable than, those offered by independent third parties. Up to the Latest Practicable Date, there are no products under the 2021 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).

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. We understand the Group will only place orders to SZ Kingworld Lifeshine upon receiving purchase orders from its customers. As disclosed in the payment terms under the 2021 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 the independent suppliers require the purchasers to pay 50% of the purchase price in advance within or not more than three days after the purchasers has placed an order. 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 deposits. Therefore, we consider the payment term of the 2021 SZ Kingworld Lifeshine Master distribution Agreement is reasonable.

LETTER FROM VINCO CAPITAL

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 2021 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.

A. Basis of the proposed annual caps in respect of the 2021 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 2020 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2020 and for the three months ended 31 March 2021:

Continuing connected transactions Purchase of SZ Kingworld Lifeshine Products	For the year ended 31 December 2020		For the year ending 31 December 2021 (up to 31 March 2021)	
	<i>Audited</i>		<i>Unaudited</i>	
	<i>(equivalent to approximately)</i>		<i>(equivalent to approximately)</i>	
	<i>RMB</i>	<i>HKD</i>	<i>RMB</i>	<i>HKD</i>
Actual transaction amount	22,170,000	24,914,000	8,940,000	10,678,000
Historical annual caps	22,271,000	24,884,000	24,498,000	27,372,000
Utilisation rate (based on the historical annual caps)	99.55%		36.49%	

For the year ended 31 December 2020 and for the three months ended 31 March 2021, the total amount of historical transactions of SZ Kingworld Lifeshine Products purchased by the Group from SZ Kingworld Lifeshine were approximately RMB22,170,000 and RMB8,940,000 respectively. As at the Latest Practicable Date, the purchase of SZ Kingworld Lifeshine Products did not exceed the annual caps for the year ending 31 December 2021.

LETTER FROM VINCO CAPITAL

Proposed annual caps

The following table sets out the respective proposed annual caps of the continuing connected transactions under the 2021 SZ Kingworld Lifeshine Master Distribution Agreement for the three years ending 31 December 2023:

2021 SZ Kingworld Lifeshine Master Distribution Agreement						
	For the year ending 31 December 2021		For the year ending 31 December 2022		For the year ending 31 December 2023	
	<i>(equivalent to approximately)</i>		<i>(equivalent to approximately)</i>		<i>(equivalent to approximately)</i>	
	<i>RMB</i>	<i>HKD</i>	<i>RMB</i>	<i>HKD</i>	<i>RMB</i>	<i>HKD</i>
Proposed						
annual caps	39,180,000	46,510,000	44,280,000	52,564,000	52,280,000	62,061,000

In our assessment of the reasonableness of the proposed annual caps under the 2021 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 2023 and the underlying basis 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 SZ Kingworld Lifeshine Master Distribution Agreement:

- (i) the historical figures of the actual transaction amounts under the 2018 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2018, under the 2019 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2019 and under the 2020 SZ Kingworld Lifeshine Master Distribution Agreement for the year ended 31 December 2020 and (unaudited actual transaction amount) for the three months ended 31 March 2021; and
- (ii) the expected demand for different pharmaceutical and healthcare products from customers.

The proposed annual caps are calculated by multiplying the planned purchase quantity by the estimated unit price of the products. Our analysis of the planned purchase quantity and estimated unit price would be provided in point (i) to (iv) and (vi) to (vii) below respectively.

We have discussed with the Company regarding the above factors and 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 updated purchase forecast plan of SZ Kingworld Lifeshine Products for the three years ending 31 December 2023 proposed by the management of the Group after evaluating the current market condition. We found that the estimated purchase quantity for the SZ Kingworld Lifeshine Products are approximately 5.0 million

LETTER FROM VINCO CAPITAL

bottles, 5.8 million bottles and 7.1 million bottles for the coming three years, represent an increase of approximately 16% from 2021 to 2022 and 22% from 2022 to 2023 respectively according to the forecast plan. The estimated quantity of SZ Kingworld Lifeshine Products for the year ending 31 December 2021 and 31 December 2022 are approximately 14% and 20% more than the expected quantity forecasted at the point of time when the annual caps of the continuing connected transaction contemplated under 2020 SZ Kingworld Lifeshine Master Distribution Agreement was proposed respectively;

- (ii) the purchase order issued by an independent third party to the Company in 2021 and we noted that the demand on average is about 8%, 14% and 22% of the expected total quantity to be purchased from SZ Kingworld Lifeshine in the coming three years ending 31 December 2023 accordingly;
- (iii) 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 which sell the SZ Kingworld Lifeshine Products will be increased from approximately 79,202 branches as at the end of 2020 to approximately 131,443 branches at the end of 2023. 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 the 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;
- (iv) the estimated quantity of the SZ Kingworld Lifeshine Products is expected to be increased by 16% from 2021 to 2022 and 22% from 2022 to 2023 respectively taking into account 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 2020. We noted that the increase of sales is approximately 69% from the year ended 31 December 2019 to the year ended 31 December 2020. Furthermore, the sales transaction amounts for the three months ended 31 March 2021 increased by approximately 157% as compared to the transaction amounts for the three months ended 31 March 2020;
- (v) the utilisation rate of the purchase of SZ Kingworld Lifeshine Products for the year ended 31 December 2020 is approximately 99.55%. As discussed with the management of the Company, the proposed annual caps for the transactions contemplated under the 2020 Master Distribution Agreements will exceed the existing annual caps for the two years ending 31 December 2022 under the 2020 Master Distribution Agreements. We are of the view that the updated forecast purchase plan is more practical and relevant to the current situation;

LETTER FROM VINCO CAPITAL

- (vi) the estimated purchase price of the SZ Kingworld Lifeshine Products is expected to be charged according to the quotation issued by SZ Kingworld Lifeshine which we have obtained from the Company. Due to the commercial sensitivity and concern of its confidentiality for the Group to carry on of its distribution business, we do not find disclosure of the Group's estimated average unit price would be in the interest of the Company and the Shareholders as a whole because this would make the Group lose out in the competitive distribution business and make an adverse impact on the Group's negotiation with suppliers and customers and its market development. However, based on the samples we collected from the Company, we understand the Company would compare the unit prices of the products with similar function and ingredients of SZ Kingworld Lifeshine Products offered by the independent third parties to the Group with those offered by SZ Kingworld Lifeshine and have found the price offered by SZ Kingworld Lifeshine to be no less favourable than, those offered by independent third parties; and
- (vii) As confirmed by the management of the Group, the purchase price of SZ Kingworld Lifeshine Products would not increase for the three years ending 31 December 2023 because SZ Kingworld Lifeshine receives discounts in buying raw materials in the event of bulk purchase. As such, the price of the raw materials would not affect the purchase price of SZ Kingworld Lifeshine Products.

B. Conclusion

Based on the factors and reason discussed above, we are of the view that the proposed annual caps of the 2021 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 2021 MASTER DISTRIBUTION AGREEMENTS

As confirm by the Director, the Company will adopt the following internal control procedures to govern the continuing connected transactions of the Company under the 2021 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 2021 Master 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

LETTER FROM VINCO CAPITAL

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 March 2021, 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 the Group will make profit from the distribution of the Yuen Tai Products and SZ Kingworld Lifeshine Products. 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).

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 2021 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 2021 Master Distribution Agreements.

- (ii) 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 2021 Master Distribution Agreements and where necessary, seek advice from professional parties such as legal advisers and/or auditor.
- (iii) 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 2021 Master Distribution Agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (iv) 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 2021 Master Distribution Agreements have been approved by the Board; (b) the transactions were entered into, in all material respects, in accordance with the 2021 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 31 March 2021 in relation to the

LETTER FROM VINCO CAPITAL

2021 SZ Kingworld Lifeshine Master Distribution Agreement and 2021 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 2021 Master Distribution Agreements to confirm whether the transactions thereunder not to exceed the annual cap on a year basis.

RECOMMENDATION

Having taken the above principal factors and reasons, we considered that (i) the 2021 Master Distribution Agreements is in the ordinary and usual course of business of the Group; (ii) the terms of the 2021 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 2023 for each of the 2021 Master Distribution Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 2021 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2023.

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	19,072,000	3.06%
	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	316,884,250	50.91%
	Interest of a controlled corporation	90,000,000	14.46%
Zhou Xuhua ^(Note 3)	Beneficial owner	744,000	0.12%
	Interest of spouse	2,380,000	0.38%
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 19,072,000 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 407,628,250 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) 19,072,000 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 19,072,000 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 2,380,000 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)	Number of Share Options				Outstanding as at 31 December 2020	Approximate percentage of the Company's total issued share capital
				Outstanding as at 1 January 2020	Grant during the year	Cancelled during the year	Lapsed during the year		
Zhao Li Sheng (Note 1)	23 April 2018	23 April 2018 to 22 April 2024	1.26	468,000	-	-	-	468,000	0.0751%
Chan Lok San (Note 2)	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	-	-	-	416,000	0.0668%
Zhou Xuhua	23 April 2018	23 April 2018 to 22 April 2024	1.26	416,000	-	-	-	416,000	0.0668%
Duan Jidong	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	-	-	-	372,000	0.0597%
Zhang Jianbin	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	-	-	-	372,000	0.0597%
Wong Cheuk Lam	23 April 2018	23 April 2018 to 22 April 2024	1.26	372,000	-	-	-	372,000	0.0597%
Total				2,416,000	-	-	-	2,416,000	0.3881%

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

Note 2: Chan Lok San (being the spouse of Zhao Li Sheng) 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 23 April 2018 was HK\$1.26.

(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, and the following lease by Shenzhen Shuxintong Art and Culture Communication Limited* (深圳市舒心堂藝術文化傳播有限公司), which is 40.8% held by SZ Kingworld, 39.2% held by SZ Kingworld Industry and 20% held by Ms. Zhao Weiyang, daughter of Mr. Zhao and Ms. Chan, from SZ Kingworld, none of the Directors had any direct or indirect interest in any assets which have since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased from or to any member of the Group, or are proposed to be acquired or disposed of by or leased from or 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 2020 to 31 December 2021, at a monthly rental of RMB12,200 (the “**Property Lease Agreement**”); and

- (ii) Rooms 401, 501 and 503 of Building 2, Hong Gang Garden, Shenzhen (深圳市紅崗花園二棟 401室、501室、503室) with a site area of approximately 182 square meters, for accommodation purpose, for a term commencing from 1 July 2020 to 31 December 2021, at a monthly rental of RMB13,000 (the “**Hong Gang Property Lease Agreement**”);
- (iii) 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 July 2020 to 31 December 2021, at a rental of RMB12,500 per month (the “**Advertising Space Lease Agreement**”); and
- (iv) office 904, 9th Floor, Block A, Innovation Building, Nanshan District, Shenzhen (深圳市南山區創新大廈A座九樓904辦公用房), for office purposes, for a term commencing from 1 May 2020 to 30 April 2023, for a rental of RMB31,120 per month (the “**Nanshan Property 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, the 2021 Medical Masks Distribution Agreement, the 2021 Medical Masks Service Agreement and the 2021 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 2020 (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 2020, 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 2021 Yuen Tai Master Distribution Agreement;
- (ii) the 2021 SZ Kingworld Lifeshine Master Distribution Agreement;
- (iii) the letter dated 10 May 2021 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 24 to 25 of this circular;

- (iv) the opinion letter dated 10 May 2021 from the Independent Financial Adviser, the text of which is set out on pages 26 to 50 of this circular;
- (v) the Property Lease Agreement;
- (vi) the Hong Gang Property Lease Agreement;
- (vii) the Advertising Space Lease Agreement;
- (viii) the Nanshan Property Lease Agreement;
- (ix) the written consent issued by the Independent Financial Adviser as referred in the paragraph headed “Expert and Consent” in this appendix; and
- (x) 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 the Conference Room, 9th Floor, Block A, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, the PRC on Thursday, 27 May 2021 at 10:30 a.m. (or immediately after the conclusion of the annual general meeting of the Company) (or any adjournment thereof) 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 10 May 2021 (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 2021 Yuen Tai Master Distribution Agreement and the proposed annual caps for the three years ending 31 December 2023, details of which are set out in the Circular.
- 2 To consider and approve the transactions under the 2021 SZ Kingworld Lifeshine Master Distribution Agreement and the proposed annual caps for the three years ending 31 December 2023, 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 2021 Master Distribution Agreements and the transactions contemplated thereunder.

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

Hong Kong, 10 May 2021

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.
5. Considering the outbreak of the coronavirus (COVID-19), certain measures will be implemented at the EGM with a view to addressing the risk to attendees of infection, including, without limitation, (i) all attendees being required to (a) undergo compulsory body temperature check; and (b) wear surgical masks prior to admission to the EGM venue; (ii) all attendees being required to wear surgical masks throughout the EGM; (iii) each attendee being assigned a designated seat at the time of registration to ensure social distancing; and (iv) no refreshment packs or coffee/tea being provided.

The Company reminds attendees that they should carefully consider the risks of attending the EGM, taking into account their own personal circumstances. The Company will keep the evolving COVID-19 situation under review and may implement additional measures which it will announce closer to the date of the EGM.

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.