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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)

MAJOR TRANSACTION
MAIN CONTRACTOR CONSTRUCTION AGREEMENT

THE AGREEMENT

The Board is pleased to announce that, on 25 June 2021 (after trading hours), Longde Jiankang, a joint venture company which is 90% owned by Shenzhen Kingworld (a wholly-owned subsidiary of the Company) and 10% owned by Shenzhen Shanghenggang, entered into the Agreement with the Contractor in relation to the Construction on the Land Parcel at the Consideration of RMB135.8 million.

THE LISTING RULES IMPLICATIONS

The foundation work of the Land Parcel commenced in December 2020. The cost of the foundation work to be paid by Longde Jiankang amounted to RMB22.4 million. As at the date of this announcement, Longde Jiankang has paid approximately RMB12.9 million of the cost of the foundation work.

As the Agreement and the Previous Agreement in relation to the provision of foundation work on the Land Parcel were made by the parties within a 12-month period and both agreements were entered into by Longde Jiankang with the Contractor, the Consideration in relation to the Construction on the Land Parcel is required to be aggregated with the cost of the foundation work in accordance with Rule 14.22 of the Listing Rules for the purpose of transaction classification set out in Rule 14.06 of the Listing Rules.

Since one or more of the relevant percentage ratios under the Listing Rules in respect of the cost of foundation work and the Consideration exceed 25% but all of them are less than 100%, the foundation work and transactions contemplated under the Agreement constitute a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

In lieu of convening a general meeting, the Company will obtain written approval for the Agreement and the transactions contemplated thereunder in accordance with Rule 14.44 of the Listing Rules from a closely allied group of Shareholders comprising Golden Land, Golden Morning, Mr. Zhao and Ms. Chan, which together are beneficially interested in an aggregate of 407,628,250 Shares, representing approximately 65.48% of the entire issued capital of the Company as at the date of this announcement. Golden Land is wholly owned by Mr. Zhao. Golden Morning is wholly owned by Ms. Chan, the spouse of Mr. Zhao. Golden Land, Golden Morning, Mr. Zhao and Ms. Chan held 297,812,250 Shares, 90,000,000 Shares, 19,072,000 Shares, 744,000 Shares, representing approximately 47.84%, 14.46%, 3.06% and 0.12% of the total issued Shares as at the date of this announcement, respectively.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, none of the Shareholders has any material interest in the transactions under the Agreement and no Shareholder is required to abstain from voting if an extraordinary general meeting were to be convened for the approval of the Agreement. As such, since written approval from a closely allied group of Shareholders (being Golden Land, Golden Morning, Mr. Zhao and Ms. Chan) will be obtained pursuant to Rule 14.44 of the Listing Rules, no extraordinary general meeting will be convened for the purpose of approving the Agreement as permitted under Rule 14.44 of the Listing Rules.

DESPATCH OF CIRCULAR

A circular containing further details of the Agreement is expected to be despatched to the Shareholders on or before 19 July 2021.

A. INTRODUCTION

References are made to the Announcements.

As disclosed in the Announcements, Shenzhen Kingworld, a wholly-owned subsidiary of the Company, and Shenzhen Shanghenggang formed a joint venture company, Longde Jiankang, for the development and construction of a logistic centre with ancillary facilities and ancillary commercial property, on the Land Parcel.

The Board is pleased to announce that, upon the conclusion of a tender process for selection of the main contractor for the development and construction of the Land Parcel, on 25 June 2021 (after trading hours), Longde Jiankang entered into the Agreement with the Contractor in relation to the construction of two buildings, which include factory and dormitories, and related facilities and works on the Land Parcel at the Consideration of RMB135.8 million. Apart from the cost of the pile foundation work, which may be adjusted based on the actual completion of the work, the total construction cost under the Agreement is fixed and not subject to adjustment.

B. THE AGREEMENT

A summary of the major terms of the Agreement is set out below:

Parties

- (a) Longde Jiankang as the principal
- (b) Guangdong Zhonglianjian Construction Engineering Co., Ltd. (廣東中聯建建築工程有限公司) as the contractor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Contractor and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected person(s).

Subject matter

The Contractor shall be appointed as the main contractor for the Construction undertaking, inter alia, foundation pit excavation and filling, basement sidewall backfilling, piling, main structure and construction engineering, heat preservation, waterproof, assembly, doors and windows engineering, façade works, railing and other related engineering works as specified in the design paper herein, anti-collision corner protection, speed bumps, steel parking space barrier (not including marking of carpark space, signage) in the underground garage, and any engineering work specified in the design and construction paper and the Agreement.

Consideration

The total Consideration is RMB135.8 million. Apart from the cost of the pile foundation work, which may be adjusted based on the actual completion of the work, the total construction cost under the Agreement is fixed and not subject to adjustment.

The Consideration includes value-added tax of 9%, and safe and civilised construction fee of RMB3.4 million.

The Consideration shall be settled in the manner set out below:

- (1) The working progress fees shall be paid on a monthly basis, in accordance with an amount calculated based on 78% of the actual qualified completed work in the corresponding month. The Contractor shall submit the monthly project progress report (which shall include the description of the project image progress) and the intermediate payment application report before the 25th day of each month. After the preliminary review by the chief supervising engineer, the Contractor shall submit the payment approval form affixed with its official seal to Longde Jiankang. If Longde Jiankang receives the sealed payment approval form before the 5th day of each month, Longde Jiankang shall make payment before the 15th day of each month.
- (2) When the cumulative amount of work progress fees paid reaches 80% of the Consideration, Longde Jiankang will cease to make monthly work progress fees.

- (3) After the project within the scope of the Construction passes the special completion inspection arranged by the supervisor and that the Contractor has handed over all the relevant completion data of the project within the scope of the Construction to Longde Jiankang and the work surface to the designated subcontractor or independent contractor, Longde Jiankang shall pay the project fee, which is up to 90% of the Consideration (including any change approved by Longde Jiankang), to the Contractor. If the special completion inspection is not carried out or cannot be carried out within six months due to Longde Jiankang or the supervisor, Longde Jiankang shall still be liable to pay such remaining Consideration according to the Agreement.
- (4) Within four months after the passing of work completion inspection, the Contractor has transferred all construction completion documents and passed the acceptance, the completion of the “project quality warranty report” and completion of the settlement by each party, Longde Jiankang shall make payments to the Contractor until 97% of the Consideration has been paid. Unless a special invoice with the same amount of value-added tax of the aggregated settlement amount is provided by the Contractor, Longde Jiankang shall have right to refuse to make payment.
- (5) The remaining 3% of the Consideration shall be the quality warranty fee. The majority of the quality warranty fee, except for RMB500,000 reserved for waterproofing quality warranty fee, shall be paid in lump-sum to the Contractor within one month after two years of quality inspection such that no quality issues have been existed or such existing issues have been effectively resolved. The remaining RMB500,000 waterproofing quality warranty fee shall be paid in one lump-sum to the Contractor within one month after the expiry of five-year waterproof warranty period if there is no quality issue, or such related issues have been effectively resolved. Any related maintenance or repair expenses paid by Longde Jiankang on behalf of the Contractor shall be deducted from the quality warranty fee, and the payment shall be non-interest bearing.

The Consideration is expected to be settled by cash and funded by internal resources of Longde Jiankang and/or bank borrowings.

The Consideration was determined based on the bidding price offered by the Contractor.

Effective Date of the Agreement

The Agreement shall become effective after it is signed and sealed by the parties to the Agreement, the approval by the Shareholders in accordance with the Listing Rules has been obtained and a satisfactory performance guarantee to guarantee the performance of the Agreement has been provided by the Contractor.

Completion

The construction period is expected to be 480 days, scheduled to commence on 29 June 2021 or the date on which the Agreement is approved by the Shareholders in accordance with the Listing Rules (whichever is later) and complete on 21 October 2022.

If the total number of days within the construction period is inconsistent with the number of days as calculated based on the aforesaid scheduled commencement and completion dates, the total calendar days of the construction period shall prevail.

Performance Guarantee

The performance guarantee of the Agreement shall be 10% of the Consideration, which has been provided by the Contractor to Longde Jiankang before the entering into of the Agreement. The performance guarantee (non-interest bearing) shall be refunded to the Contractor within 15 business days if the Contractor has not breached the Agreement and the project passes the completion inspection.

If the Contractor fails to perform its obligations under the Agreement and Longde Jiankang chooses to proceed with the performance of the Agreement, Longde Jiankang is entitled to deduct from the performance guarantee or exercised its rights in accordance with the performance guarantee. If Longde Jiankang chooses to terminate the Agreement, it is entitled to confiscate the performance guarantee or any sum under the performance guarantee. If the loss caused by the Contractor exceeds the amount of the performance guarantee, the Contractor shall compensate Longde Jiankang for such loss.

C. REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

As disclosed in the announcements of the Company dated 14 May 2016 and 13 August 2019, it is intended that 69.0% of the Land Parcel (approximately 29,000 sq.m.) will be developed into a logistic centre with ancillary facilities in order to support the business of the Group, and 31.0% of the Land Parcel (approximately 13,000 sq.m.) will be developed into ancillary commercial property, and a total of 12,600 sq.m. will be developed as dormitories, small businesses and canteen, which may be leased out. In addition, two floors in the basement, each with approximately 6,900 sq.m., or a total of 13,800 sq.m., will be developed into a car park.

The Group will fully integrate its resources to develop the Longde Health Industrial Park on the Land Parcel, which will include four core sections, including (1) a Chinese medicine research and development centre to be used by the Group to establish multi-faceted laboratory with higher education institutions and science and technology institutions in Guangdong and Hong Kong; (2) the “Shenzhen Health Industry Technology Innovation Centre”, to be jointly built in the park targeting to establish a health project incubation platform; (3) a domestic development centre will be built for the Shenzhen-Hong Kong Loop Chinese Medicine Technology Innovation Park within the park; and (4) a national logistics and distribution centre of the Group and a key logistics enterprise in Shenzhen.

The Group is committed to building an omni-channel and full chain pharmaceutical supply chain. The Group believes that the completion of the distribution centre will provide strong support for the Group to build a more complete and more convenient national logistics system, and further enhance the Group’s comprehensive strength in the logistics industry, thus providing positive demonstration to foster the development of logistics enterprises in Shenzhen and across the country. The Group believes that the Construction and operation of the Longde Health Industrial Park will facilitate the integration of research, production, and sales of the Group to build up its new core competitiveness in the new era and is in the interests of the Company and its Shareholders as a whole.

The Consideration was arrived at from a tender process and the tender submitted by the Contractor was considered the most appropriate after taking into account the tender price and payment terms, as well as the background, capacity, qualifications and experience of the Contractor.

Based on the above, the Board (including the independent non-executive Directors) considers that the terms and conditions of the Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

D. OTHER INFORMATION

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

Longde Jiankang is a company established with limited liability in the PRC and is 90% owned by Shenzhen Kingworld and 10% owned by Shenzhen Shanghenggang. Longde Jiankang is a joint venture company established for the purpose of developing the Land Parcel.

To the best of the Directors' knowledge, information and belief having made reasonable enquiries, the Contractor is principally engaged in general contracting of construction engineering and municipal engineering construction projects. The Contractor is approximately 77.99% owned by Mr. Huang Qiuyan (黃秋炎) and 22.01% owned by Mr. Huang Zefen (黃澤奮), respectively.

E. LISTING RULES IMPLICATIONS

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To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, none of the Shareholders has any material interest in the transactions under the Agreement and no Shareholder is required to abstain from voting if an extraordinary general meeting were to be convened for the approval of the Agreement. As such, since written approval from a closely allied group of Shareholders (being Golden Land, Golden Morning, Mr. Zhao and Ms. Chan) will be obtained pursuant to Rule 14.44 of the Listing Rules, no extraordinary general meeting will be convened for the purpose of approving the Agreement as permitted under Rule 14.44 of the Listing Rules.

F. DESPATCH OF CIRCULAR

A circular containing further details of the Agreement is expected to be despatched to the Shareholders on or before 19 July 2021.

G. DEFINITIONS

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

“Agreement”	the agreement dated 25 June 2021 entered into between Longde Jiankang and the Contractor in respect of the Construction on the Land Parcel
“Announcements”	announcements of the Company dated 14 May 2016, 8 June 2016, 5 September 2016, 29 December 2017, 13 August 2019 and 23 December 2020
“Board”	the board of directors of the Company
“BVI”	the British Virgin Islands
“Company”	Kingworld Medicines Group Limited (金活醫藥集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the total consideration payable by Longde Jiankang to the Contractor under the Agreement, being RMB135.8 million
“Construction”	the construction of two buildings, which include factory and dormitories, and related facilities and works on the Land Parcel
“Contractor”	Guangdong Zhonglianjian Construction Engineering Co., Ltd. (廣東中聯建建築工程有限公司), a company established in the PRC
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

“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
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Land Parcel”	a land parcel located at Baolong Industrial Zone, Longgang District, Shenzhen City, the PRC (中國深圳市龍崗區寶龍工業區) with an area of approximately 9,999.7 sq.m for industrial use
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Longde Jiankang”	Shenzhen City Longde Jiankang Company Limited* (深圳市龍德健康有限公司), a joint venture company established by Shenzhen Kingworld and Shenzhen Shanghenggang in relation to the development of the Land Parcel. As at the date of this announcement, Longde Jiankang is 90% owned by Shenzhen Kingworld and 10% owned by Shenzhen Shanghenggang, respectively
“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 (陳樂榮), an executive Director, a co-founder and controlling Shareholder of the Company
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Previous Agreement”	the agreement dated 9 December 2020 entered into between Longde Jiankang and the Contractor in respect of the provision of foundation work on the Land Parcel
“RMB”	Reminbi, the lawful currency of the PRC
“Shares”	ordinary share(s) in the Company
“Shareholder(s)”	the holder(s) of the Shares
“Shenzhen Kingworld”	Shenzhen Kingworld Medicine Co., Ltd, a wholly-owned subsidiary of the Company
“Shenzhen Shanghenggang”	Shenzhen Xinda Shanghenggang Cooperative Stock Company* (深圳市新大上橫崗股份合作公司)
“sq.m.”	square meter(s)

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“%”

per cent

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

Hong Kong, 25 June 2021

As at the date of this announcement, 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.

* *For identification purposes only*