
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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

A letter from the Board is set out on pages 6 to 13 of this circular.

The Company has obtained 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 holding more than 50% of the issued share capital of the Company giving the right to attend and vote at an extraordinary general meeting. Accordingly, no Shareholders' meeting will be convened to approve the Agreement pursuant to Rule 14.44 of the Listing Rules. This circular is being despatched to the Shareholders for information only.

23 August 2021

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	6
Appendix I – Financial Information of the Group	14
Appendix II – General Information	17

DEFINITIONS

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

“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
“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

DEFINITIONS

“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
“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, 23 December 2020 and 25 June 2021
“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

DEFINITIONS

“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
“Group”	the Company and its subsidiaries
“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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)
“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
“Latest Practicable Date”	18 August 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

“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 Latest Practicable Date, Longde Jiankang is 90% owned by Shenzhen Kingworld and 10% owned by Shenzhen Shanghenggang, respectively
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“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 (陳樂樂), 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 circular, 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”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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
“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

DEFINITIONS

“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
“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
“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:

Windward 3
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

23 August 2021

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
MAIN CONTRACTOR CONSTRUCTION AGREEMENT

A. INTRODUCTION

References are made to the Announcements.

As disclosed in the Announcements, (i) 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; and (ii) 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

LETTER FROM THE BOARD

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.

The purpose of this circular is to provide Shareholders with further details of the Agreement.

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 enquiry, 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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

Apart from the Contractor, there were three other bidders participated in the tender process for the selection of the main contractor for the Construction. The Company received a total of four tenders from all bidders (including the Contractor). The Contractor was selected by the Group for the reasons as described in the section headed “C. Reasons for and benefits of entering into the Agreement” in the letter from the Board below.

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.

On 28 June 2021, the Company obtained 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 (being Golden Land, Golden Morning, Mr. Zhao and Ms. Chan) holding more than 50% of the issued share capital of the Company giving the right to attend and vote at an extraordinary general meeting. 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 Latest Practicable Date. 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 Latest Practicable Date, respectively.

The Agreement took effect from 28 June 2021.

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.

LETTER FROM THE BOARD

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, 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.

LETTER FROM THE BOARD

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

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 Latest Practicable Date, 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 has obtained 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 Latest Practicable Date. 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 Latest Practicable Date, 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

LETTER FROM THE BOARD

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) has been 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.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby a Shareholder has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his/her/its Shares to a third party, either generally or on a case-by-case basis. Accordingly, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there exists no discrepancy between any Shareholder's beneficial shareholding interest in the Company and the number of Shares in respect of which such Shareholder will control or will be entitled to exercise control over the voting right if an extraordinary general meeting were to be convened for the approval of the Agreement.

F. FINANCIAL EFFECTS OF THE TRANSACTIONS UNDER THE AGREEMENT ON THE GROUP

The Consideration is RMB135.8 million. The settlement terms of the Consideration is set out under the section headed "B. The Agreement – Consideration" in this letter from the Board.

When the construction costs under the Agreement (being the Consideration) are incurred, the relevant portion of Consideration will be capitalised to "construction in progress" under the consolidated balance sheet of the Group, with the corresponding increase in the balance of "trade payables". The assets and the liabilities of the Group will be increased accordingly. The payment of Consideration, and the payments and expenses incurred and to be incurred in connection with the Construction would result in the decrease in "trade payables", decrease in "cash and cash equivalents" and/or "bank borrowings". Upon completion of the Construction and settlement of the Consideration, the fixed assets of the Group is expected to increase by approximately the same amount of RMB135.8 million as the Consideration. On the other hand, as the Consideration is expected to be settled by cash and funded by internal resources of the Group and bank borrowings, there will be a decrease in bank balances and increase in bank borrowings by also approximately the same amount of RMB135.8 million as the Consideration. As a result, the net asset value of the Group is expected to remain unchanged as the increase in fixed assets will be offset by the decrease in bank balances and increase in bank borrowings.

The Group does not expect the Construction to have any immediate material impact on earnings of the Group upon completion of the Construction. It is expected that completion of the Construction will have no impact on the net asset value of the Group because the Consideration will be settled by internal resources and/or bank borrowings of the Group.

LETTER FROM THE BOARD

The Company considers that there will not be any material effect on the earnings of the Group immediately due to the execution of the Agreement. Since the Consideration is expected to be funded by internal resources and/or bank borrowings of the Group, after the payment of the Consideration, the cash and cash equivalents of the Group will decrease by approximately RMB135.8 million and as a result, the bank interest income of the Group will be reduced and the finance costs from interest-bearing loans will increase.

G. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

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

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the financial years ended 31 December 2018, 31 December 2019 and 31 December 2020, respectively, together with the relevant notes thereto are disclosed in the following documents, which were published on both the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kingworld.com.cn) as follows:

- the Company's annual report for the year ended 31 December 2018 published on 23 April 2019 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0423/ltn20190423727.pdf>) (pages 68 to 185);
- the Company's annual report for the year ended 31 December 2019 published on 23 April 2020 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0423/2020042302087.pdf>) (pages 72 to 183); and
- the Company's annual report for the year ended 31 December 2020 published on 23 April 2021 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042302056.pdf>) (pages 89 to 209).

2. INDEBTEDNESS

As at 30 June 2021 (being the latest practicable date for ascertaining the information contained in this statement of indebtedness), the outstanding bank and other borrowings of the Group was approximately RMB264.9 million. The Group had unutilised banking facilities of RMB68.9 million. As at 30 June 2021, the Group's unutilised banking facilities were secured by pledge over certain of the Group's investment properties, right-of-use assets, property, plant and equipment and trade receivables.

Save as disclosed above and apart from the intra-group liabilities, as at 30 June 2021, the Group did not have any other outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt instruments, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources presently available to the Group, including the internally generated funds, cash flows from operation and currently available facilities, the Group has sufficient working capital to satisfy its requirements for its normal business for at least 12 months from the date of publication of this circular in the absence of unforeseen circumstances. The Company has obtained the relevant confirmation as required under Rule 14.66(12). Crowe (HK) CPA Limited, the auditor of the Company, confirmed that (i) the statement as to the sufficiency of working capital has been made by the Directors after due and careful enquiry; and (ii) the persons or institutions providing finance to the Group have confirmed in writing that such facilities exist.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in (i) distribution sale of branded imported pharmaceutical and healthcare products in the PRC and Hong Kong, and (ii) manufacturing and sales of medical devices. As disclosed in the Company's 2020 annual report, as at 31 December 2020, the Group had audited consolidated net assets and cash and cash equivalents of approximately RMB678.5 million and RMB250.8 million, respectively. For the year ended 31 December 2020, the Group's audited consolidated revenue and profit attributable to shareholders of the Company were approximately RMB745.4 million and RMB11.7 million, respectively.

The year 2021 is the closing year of the Group's "Fourth Five-Year Strategic Development Plan". Under the background of a complex situation with unprecedented changes in a century where China starts to implement the Fourteenth Five-Year National Development Plan, the Group will initiate the preparation of the Group's Fifth Five-Year Strategic Development Plan. The Group will review and summarise the implementation and completion of the strategies of the Fourth Five-Year Strategic Development Plan to formulate various directions, policies and measures for the Fifth Five-Year Strategic Development Plan to achieve the objectives of upgrading the Group's industrial chain and making breakthroughs in operation revenue and net profit during the progression of the Fifth Five-Year Strategic Development Plan.

Pharmaceutical Products Segment

In 2021, the macro environment in China and overseas is complex and volatile, there is huge pressure on the growth of the domestic economy in the PRC. The reform of the medical and pharmaceutical industry has entered the "deep water zone", and the price of pharmaceutical products in public medical institutions continues to fall. The profit margin of pharmaceutical companies is under pressure, and a huge outflow of hospital prescription pharmaceutical products to the OTC market while the pharmaceutical e-commerce and cross-border pharmaceutical e-commerce have achieved breakthrough development. At the same time, it comes to the era of 5G life where consumers have more convenient and diversified channels for obtaining information and making purchases. As a result, there are rapid changes in the macroeconomy, industry policies, consumer markets. In the post-epidemic era, people are more concerned with their health, and the concept of improving immunity and focusing on prevention will be more deeply rooted in the heart of the public. The Group will follow the trend and the development of the country in order to seize the opportunity arising from the outflow of prescription pharmaceutical products to the OTC market by properly engaging in industry research and market planning to fully utilise its marketing advantages. Based on the foundation of "Enalapril maleate and folic acid tablets", the Group will continue to absorb new products and act as an agent for prescription pharmaceutical products in the pharmaceutical retail channels to enrich the Group's product portfolio.

Healthcare Products Segment

In 2021, the Group will strengthen its healthcare product structure, broaden its domestic and international horizons, expand the product introduction channels, and enhance the innovation of its self-developed brand products. At the same time, the Group will seize the market opportunities, leverage its operational advantages in the healthcare product retail market, take the initiative to achieve reciprocal business collaborations with related suppliers. In addition to the continuous introduction of domestic and foreign high-quality healthcare products, the Group will also increase the research and development, production and sales of products with autonomous intellectual property rights, and accelerate the production and marketing of the products of Chinese medicine with probiotic ingredients. The Group continues to actively promote the research and development project of probiotic products via its cooperation with the Hong Kong University of Science and Technology, and will complete the mass production of the final product and launch the products to the market as soon as possible.

Medical Devices Segment

The Group's medical device segment, Shenzhen Dong Di Xin Technology Company Limited (“**Dong Di Xin**”), is one of the innovative pioneers and drivers of global electrotherapeutics treatment and rehabilitation equipment. It is a national high-tech enterprise, with R&D, design, manufacturing and production integrated within one entity. Dong Di Xin was awarded with the title of Guangdong Province Quality and Credit AAA Grade Enterprise for three consecutive years. During the outbreak of the pandemic, Dong Di Xin, leveraging on its excellent product quality and complete product quality certification system, has become the fourth infrared thermometer enterprise approved for inclusion in the “White List” in China, and achieved significant increase in sales orders. Dong Di Xin's infrared thermometers have successfully entered the second largest pharmaceutical chain store in the United States and the purchase orders continue to grow due to the global spread of the pandemic.

Looking ahead, the Group will seek to overcome all these challenges and endeavour its best to achieve stable and promising results. The Group will continue to promote the long term sustainable development of its business, with an aim to bring a stable return to the Shareholders and maximise Shareholders' value.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors confirm that there has been no material change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Company were made up.

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, 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%
Wong Cheuk Lam ^(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
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, 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**”);

- (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. MATERIAL CONTRACTS

The following contracts (being contracts entered into outside the ordinary course of business carried on by the Company and its subsidiaries) have been entered into by members of the Group within the two years immediately preceding the date of this circular:

- (a) the Tenancy Agreement dated 12 December 2019 entered into between the Company and Hang Lung Real Estate Agency Limited in relation to the lease of Suite 1906-07, 19/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong for office use for a fixed term of two years from 16 December 2019 to 15 December 2021;
- (b) the Nanshan Property Lease Agreement dated 1 May 2020 entered into between SZ Industry and SZ Kingworld in relation to the lease of 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;
- (c) the Property Lease Agreement dated 30 June 2020 and the supplemental agreement to the Property Lease Agreement dated 7 May 2021 entered into between Shenzhen Kingworld Industry Company Limited (“**SZ Industry**”) and SZ Kingworld in relation to the lease of 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;
- (d) the Hong Gang Property Lease Agreement dated 30 June 2020 and the supplemental agreement to the Hong Gang Property Lease Agreement dated 7 May 2021 entered into between SZ Industry and SZ Kingworld in relation to the lease of 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;
- (e) the Advertising Space Lease Agreement dated 30 June 2020 and the supplemental agreement to the Advertising Space Lease Agreement dated 7 May 2021 entered into between SZ Industry and SZ Kingworld in relation to the lease of the 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;
- (f) the Previous Agreement;
- (g) the sale and purchase agreement dated 7 January 2021 entered into between Scat Company Limited and the Company in relation to the acquisition of the property at Unit 613, 6th Floor, Good Luck Industrial Centre, No. 808 Lai Chi Kok Road, Kowloon, Hong Kong by the Company at the purchase price of HK\$8,550,000;
- (h) the share transfer agreement dated 18 March 2021 entered into between HK Kingworld, as purchaser, and Lanzhou Foci Pharmacy Company Limited (“**Lanzhou Foci**”), as seller, in relation to the sale and purchase of shares in Fat Chi Medicine Company Limited (“**Fat Chi**”) at the total consideration of RMB4,913,687.5;
- (i) the sale and purchase agreement dated 25 March 2021 entered into among Mr. Jacques Noury, Mr. Jean-Claude Grippat, Kingworld Medicines Health Management Limited and Flying Success Investments Limited in relation to the sale and purchase of the shares of Innopharm;
- (j) the shareholders’ agreement dated 18 March 2021 entered into among, HK Kingworld, Lanzhou Foci and Fat Chi in relation to the shareholders’ rights and obligations in Fat Chi; and
- (k) the Agreement.

5. 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.

6. 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)).

7. LANGUAGE

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

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and, so far as the Directors are aware, there was no litigation or claim of material importance pending or threatened by or against the Company or any of its subsidiaries.

9. MISCELLANEOUS

- (i) The registered office of the Company is located at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (ii) The head office and the principal place of business in Hong Kong of the Company is at Units 1906-1907, 19th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.
- (iii) The company secretary of the Company is Mr. Chan Hon Wan. Mr. Chan is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

10. 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 memorandum and articles of association of the Company;
- (ii) the material contracts referred to in the section headed "Material Contracts" in this Appendix II;
- (iii) the annual reports of the Company for the three years ended 31 December 2018, 31 December 2019 and 31 December 2020;
- (iv) the letter from the Board as set out in this circular; and
- (v) this circular.