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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)

**REVISION OF ANNUAL CAP OF CONTINUING
CONNECTED TRANSACTIONS FOR THE YEAR
ENDING 31 DECEMBER 2017**

Reference is made to the announcement of the Company dated 1 December 2016 in respect of certain continuing connected transactions with Yuen Tai and SZ Kingworld Lifeshine contemplated under the 2017 Yuen Tai Master Distribution Agreement and the 2017 SZ Kingworld Lifeshine Master Distribution Agreement, respectively.

Due to an increase in demand in Fengbao Jianfu Capsule by our independent sub-distributor and consequently additional orders expecting to be placed with Yuen Tai by our Group for the second half of the year, the transaction amounts for the year ending 31 December 2017 is expected to be higher than the level as envisaged at the time of entering into of the 2017 Yuen Tai Master Distribution Agreement.

On 28 September 2017, HK Kingworld and Yuen Tai entered into the Supplemental Agreement to revise the annual cap for the continuing connected transactions under the 2017 Yuen Tai Master Distribution Agreement for the year ending 31 December 2017 from HK\$2,260,000 to HK\$6,320,000.

Both Yuen Tai and SZ Kingworld Lifeshine are companies wholly-owned by Morning Gold, which in turn is held as to 51% and 49% by Mr. Zhao and Ms. Chan respectively. 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 2017 Master Distribution Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the transactions contemplated under the 2017 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 the applicable percentage ratios in respect of the aggregate of the revised annual cap for transactions contemplated under the 2017 Yuen Tai Master Distribution Agreement and the proposed annual cap under the 2017 SZ Kingworld Lifeshine Master Distribution Agreement exceed 0.1% but are below 5%, the transactions thereunder are subject to the reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 1 December 2016 in respect of certain continuing connected transactions with Yuen Tai and SZ Kingworld Lifeshine contemplated under the 2016 Yuen Tai Master Distribution Agreement and the 2016 SZ Kingworld Lifeshine Master Distribution Agreement, respectively. As of the date of this announcement, the proposed annual caps under the 2017 Yuen Tai Master Distribution Agreement and the 2017 SZ Kingworld Lifeshine Master Distribution Agreement have not been exceeded.

REVISION OF ANNUAL CAP

Due to an increase in demand in Fengbao Jianfu Capsule by our independent sub-distributor and consequently additional orders expecting to be placed with Yuen Tai by our Group for the second half of the year, the transaction amounts for the year ending 31 December 2017 is expected to be higher than the level as envisaged at the time of entering into of the 2017 Yuen Tai Master Distribution Agreement.

On 28 September 2017, HK Kingworld and Yuen Tai entered into the Supplemental Agreement to revise the annual cap for the continuing connected transactions under the 2017 Yuen Tai Master Distribution Agreement for the year ending 31 December 2017 from HK\$2,260,000 to HK\$6,320,000.

In arriving at the above revised annual cap, the Company has taken into account: (i) the historical figures of the actual transaction amounts between the Group and Yuen Tai in respect of the purchase and distribution of Yuen Tai Products under the 2017 Yuen Tai Master Distribution Agreement; and (ii) the anticipated demand of Fengbao Jianfu Capsule by our independent sub-distributor and consequently the additional orders expecting to be placed by our Group with Yuen Tai for the second half of the year.

Save and except the revised maximum transaction amount between Yuen Tai and Group as amended and supplemented by the Supplemental Agreement, the rest of the provisions of the 2017 Yuen Tai Master Distribution Agreement will remain in full force and effect in accordance with its terms.

REASONS FOR, AND BENEFITS OF, THE CONTINUING CONNECTED TRANSACTIONS

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 Company considers that a long term and steady relationship with these suppliers are of importance to the Group as it enables stability in the supply to the Group which in turn avoids any unnecessary disruption to the Group's business and guarantees a smooth operation of the Group. By entering into the 2017 Master Distribution Agreements, the Group can maintain long term relationships with Yuen Tai and SZ Kingworld Lifeshine.

Pursuant to the 2017 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. These can provide the Group with advantages in costs and competitiveness. As the Group will act as the exclusive distributor for distribution of such products in the Greater China, this can also allow the Group to avoid competition with other distributors with respect to the same products in the market.

Except for Mr. Zhao and Ms. Chan, who are both executive Directors and Controlling Shareholders of the Company, none of the Directors have any material interest in the transactions. Mr. Zhao and Ms. Chan are required to abstain from voting on the Board resolutions of the Company in respect of the revision of the annual cap for the continuing connected transactions contemplated under the 2017 Yuen Tai Master Distribution Agreement and the entering into of the Supplemental Agreement by the Company.

In light of the above factors, the Directors (including the independent non-executive Directors) have resolved that (a) the revised annual cap for the continuing connected transactions under the 2017 Yuen Tai Master Distribution Agreement for the year ending 31 December 2017 is fair and reasonable and in the interests of the Company and its shareholders as a whole; and (b) the terms of the Supplemental Agreement and the transactions contemplated thereunder have been entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better to the Group; and (iii) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole. As stated above, Mr. Zhao and Ms. Chan did not vote on the relevant Board resolutions.

INFORMATION ON THE GROUP

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

INFORMATION ON YUEN TAI AND SZ KINGWORLD LIFESHINE

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

LISTING RULES IMPLICATIONS

Both Yuen Tai and SZ Kingworld Lifeshine are companies wholly-owned by Morning Gold, which in turn is held as to 51% and 49% by Mr. Zhao and Ms. Chan respectively. 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 2017 Master Distribution Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the transactions contemplated under the 2017 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.

Pursuant to the Listing Rules, if the Company proposes to revise the annual cap for a continuing connected transaction, the Company must re-comply with the provisions of Chapter 14A of the Listing Rules in relation to the relevant connected transaction.

Since the applicable percentage ratios in respect of the aggregate of the revised annual cap for transactions contemplated under the 2017 Yuen Tai Master Distribution Agreement and the proposed annual cap under the 2017 SZ Kingworld Lifeshine Master Distribution Agreement exceed 0.1% but are below 5%, the transactions thereunder are subject to the reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company confirms that the transactions contemplated under the 2017 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.

Other than Mr. Zhao and Ms. Chan, no Director is materially interested in the transactions and is required to abstain from voting on the Board resolutions to approve the revision of the annual cap for the continuing connected transactions contemplated under the 2017 Yuen Tai Master Distribution Agreement and the entering into of the Supplemental Agreement by the Company.

DEFINITIONS

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

“2017 Master Distribution Agreements”	collectively, (i) the 2017 Yuen Tai Master Distribution Agreement; and (ii) the 2017 SZ Kingworld Lifeshine Master Distribution Agreement
“2017 SZ Kingworld Lifeshine Master Distribution Agreement”	the master distribution agreement dated 1 December 2016 entered into between SZ Kingworld and SZ Kingworld Lifeshine for the purchase of the SZ Kingworld Lifeshine Products for the year ending 31 December 2017
“2017 Yuen Tai Master Distribution Agreement”	the master distribution agreement dated 1 December 2016 entered into between HK Kingworld and Yuen Tai for the purchase of the Yuen Tai Products for the year ending 31 December 2017
“Board”	the board of directors of the Company
“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

“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
“Greater China”	the PRC, including Taiwan, Hong Kong and Macao Special Administrative Region of the PRC
“Group”	the Company and its subsidiaries
“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
“Kingworld Product Range”	all products under the brand name of “Kingworld” which are manufactured and supplied by SZ Kingworld Lifeshine and distributed by the Group, namely, Kingworld Gan Mao Qing Capsule (金活感冒清膠囊), Kingworld American Ginseng Capsule (金活洋參膠囊), Kingworld American Ginseng Tablets (金活洋參含片) and Gen-seng Capsule (西洋參膠囊)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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 (陳樂榮), 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
“Shareholders”	the holders of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement to the 2017 Yuen Tai Master Distribution Agreement dated 28 September 2017 entered into between Yuen Tai and HK Kingworld to revise the maximum transaction amount contemplated under the 2017 Yuen Tai Master Distribution Agreement for the year ending 31 December 2017
“SZ Kingworld”	深圳市金活醫藥有限公司 (Shenzhen Kingworld Medicine Company Limited*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“SZ Kingworld Lifeshine”	深圳金活利生藥業有限公司 (Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited*), a company established in the PRC with limited liability
“SZ Kingworld Lifeshine Products”	the Kingworld Product Range and Imada Red Flower Oil and other pharmaceutical and healthcare products manufactured by SZ Kingworld Lifeshine purchased or to be purchased by the Group from SZ Kingworld Lifeshine including but not limited to (i) ENT anti-inflammatory; (ii) skin; (iii) diabetes; (iv) lipid; (v) anti-aging healthcare; (vi) anti-radiation healthcare; (vii) fatigue healthcare; and (viii) beauty healthcare
“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

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

Hong Kong, 28 September 2017

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

** For identification purposes only*