

23 February 2024

*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 2026**

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 2024 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2026, 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 23 February 2024 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 announcements of the Company dated 15 December 2023 in relation to, inter alia, the 2024 Master Distribution Agreements.

In view of the prospective expiry of the 2021 Yuen Tai Master Distribution Agreement and the 2021 SZ Kingworld Lifeshine Master Distribution Agreement (the “**2021 Master Distribution Agreement**”), on 15 December 2023 (after trading hours), (1) HK Kingworld, a wholly-owned subsidiary of the Company, entered into the 2024 Yuen Tai Master Distribution Agreement with Yuen Tai for the purchase of the Yuen Tai Products for a term commencing from 1 January 2024 or the date on which the 2024 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 2026 (both days inclusive), and (2) SZ Kingworld, a wholly-owned subsidiary of the Company, entered into the 2024 SZ Kingworld Lifeshine Master Distribution Agreement with SZ Kingworld Lifeshine for

the purchase of the SZ Kingworld Lifeshine Products for a term commencing from 1 January 2024 or the date on which the 2024 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 2026 (both days inclusive).

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 2024 Master Distribution Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the transactions contemplated under the 2024 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 2024 Master Distribution Agreements are expected to exceed 5%, the transactions under the 2024 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 2024 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 2024 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2026. Other than Mr. Zhao and Ms. Chan, no Director is materially interested in the transactions under each of the 2024 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 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.

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 2024 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 2024 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2026.

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 2024 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2026 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 Financial, 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 2024 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2026.

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, there was no engagement between the Company and Vinco Financial. Accordingly, we consider that we are eligible to give independent advice on, among other things, the transactions under each of the 2024 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2026.

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 2024 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2026, 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.

We consider that we have reviewed all currently available information and documents, among others: (i) the annual report of the Company for the year ended 31 December 2022, (ii) the interim report of the Company for the six months ended 30 June 2023; (iii) the

Announcement; (iv) the 2024 Yuen Tai Master Distribution Agreement; (v) the 2024 SZ Kingworld Lifeshine Master Distribution Agreement; (vi) the historical transactions between the Group and all connected persons under the 2021 SZ Kingworld Lifeshine Master Distribution Agreement and 2021 Yuen Tai Master Distribution Agreement, and their corresponding samples of transaction documents; (vii) the basis and assumption of the transactions contemplated under 2024 Master Distribution Agreements; and (viii) the internal control measures governing continuing connected transactions; 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 2024 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 2024 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2026 and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or 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 2024 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2026, we have taken into account the principal factors and reasons set out below:

2024 Master Distribution Agreements

1. Background

i. Information of the Group

The Group is principally engaged in (i) distribution sale of branded imported pharmaceutical and healthcare products; and (ii) manufacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices in the PRC and Hong Kong.

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 was established in Shenzhen, the PRC in 1996. SZ Kingworld adheres to the business philosophy of being proactive, sincere and altruistic and continues to provide safe and effective pharmaceutical and healthcare products to its customers around the world. SZ Kingworld is principally engaged in the distribution of imported branded pharmaceutical and healthcare products in the PRC. The products distributed by SZ Kingworld include Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Imada Red Flower Oil, etc.

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 2024 Master Distribution Agreements*

As disclosed in the Letter from the Board, the Group is principally engaged in (i) distribution sale of branded imported pharmaceutical and healthcare products; and (ii) manufacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices in the PRC and Hong Kong.

By entering into the 2024 Master Distribution Agreements, the Group can maintain long term relationships with 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.

Pursuant to the 2024 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 (if applicable). As such, the Group may gain competitive advantage in terms of costs. As the Group will act as the exclusive distributor for distribution of such products in the Greater China, we are of the view that the Group may avoid competition with other distributors with respect to the same products in the market.

Having considered the above, and particularly, the entering into of the 2024 Master Distribution Agreements will (i) maintain the Group's long term relationship with Yuen Tai and SZ Kingworld Lifeshine and enable the stability in the supply to the Group which in turn ensures a smooth operation of the Group's distribution business; and (ii) 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.

A. 2024 Yuen Tai Master Distribution Agreement

Principal terms of 2024 Yuen Tai Master Distribution Agreement

- 1. Date:** 15 December 2023
- 2. Parties:** (a) HK Kingworld, a wholly-owned subsidiary of the Company; and (b) Yuen Tai.
- 3. Description of the transactions:** Pursuant to the 2024 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 2024 Yuen Tai Master Distribution Agreement shall take effect subject to and conditional upon obtaining the Independent Shareholders' approval in respect of the 2024 Yuen Tai Master Distribution Agreement and the proposed annual caps for the transactions under the agreement.
- 5. Term:** The 2024 Yuen Tai Master Distribution Agreement is for a term commencing from 1 January 2024 or the date on which the 2024 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 2026 (both days inclusive).

- 6. Pricing Policy and payment terms:** The 2024 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 if a minimum gross profit margin of approximately 21.2% can be met to ensure the Group will make profit from the distribution of the Yuen Tai Products. The Group currently maintains a minimum target gross profit margin of approximately 21.2% on average for the distribution of all pharmaceutical and healthcare products where comparable products are not available in the market, which is equally applicable to Yuen Tai and other independent third parties suppliers. In determining the minimum gross profit margin, the Group has, among others, conducted market research, considered product costs and market competitions. The minimum gross profit margin may be subject to adjustments should there be changes in the market conditions, to ensure that the Group meets market demand and maintains competitiveness. Besides, we collected the historical data regarding the highest, lowest and average gross profit margin of the pharmaceutical and health products of the Group for the two years ended 31 December 2022 and the nine months ended 30 September 2023 from the Company and found the minimum gross profit margin of approximately 21.2% is based on the Group's average gross profit margin for the transactions in relation to the purchase of pharmaceutical and healthcare products for the nine months ended 30 September 2023.

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. Currently, the Yuen Tai Products are unique in terms of ingredients and formula. To the best knowledge of the Company, for all the existing 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, there is more flexibility in pricing by the Company. The Company shall strive for a higher gross profit margin that is not less than gross profit margin of approximately 21.2% and the Group will only accept the price if a minimum gross profit margin of approximately 21.2% can be met to ensure the Group will make profit from the distribution of the Yuen Tai Products. In addition, under the 2024 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 third parties suppliers are able to offer comparable products to the Group at more favourable terms.

There are no pre-defined selling prices of the Yuen Tai Products in the 2024 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 a minimum gross profit margin of approximately 21.2% (if comparable product is not available in the market), 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.

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.

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 2021 Yuen Tai Master Distribution Agreement covering the period from 1 January 2022 to 30 September 2023 and selected 6 samples of invoices for the purchase of the Yuen Tai Products which represent approximately 100% of the total historical transaction amount under the 2021 Yuen Tai Master Distribution Agreement for the year ended 31 December 2022 and nine months ended 30 September 2023. There was no transaction for the year ended 31 December 2021. We consider setting the selection criteria with transaction amount of not less than 5% of the total historical transaction amount under each of the 2021 Master Distribution Agreement covering the highest transaction amount with at least 10 samples is sufficient for us to do the assessment. Although there are less than 10 selected samples of 2021 Yuen Tai Master Distribution Agreement, they cover 100% of such historical transaction amount. Therefore, we are of the view the selected samples meet the above mentioned criteria and are fair and representative. As confirmed with the management of the Group that the Yuen Tai Products are exclusive products and there is no product with the same formula sold in the market for the Company to compare the price. Given the uniqueness of the product we have obtained and reviewed 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 not less than 8 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 for Fengbao Jianfu Capsule and Pu Ji Kang Gan Granules, respectively and found that their ingredients are different from the Yuen Tai Product 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 1 December 2023, the price would be accepted with reference to a minimum gross profit margin of approximately 21.2% to ensure the Group will make profit from the distribution of the Yuen Tai Products. We have noted that the gross profit margin of the Company's product from Yuen Tai is not lower than 21.2% and hence is favourable to the Company. 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 the Yuen Tai Products was not less than such minimum profit margin mentioned above for the year ended 31 December 2022 and nine months ended 30 September 2023 pursuant to the sample of sales and purchase invoices obtained from the Company. Besides, we found the minimum gross profit margin of approximately 21.2% required for Yuen Tai Products is in line with the average gross profit margin for transactions in relation to the purchase of pharmaceutical and healthcare products (including the purchase from independent third parties suppliers) of the Group for the nine months ended 30 September 2023. Therefore, we are of the view the Group striving for a higher gross profit margin that is not less than approximately 21.2% when there is no available price comparison in the market to be fair, reasonable and on normal commercial terms. 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 2021 Yuen Tai Master Distribution Agreement and the corresponding sales invoices, 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 exclusive distributor of the Yuen Tai Products in the Greater China, 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 2024 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 Tai upon receiving purchase orders from its customers. The transactions conducted under the 2021 Yuen Tai Master Distribution Agreement complied with such payment terms pursuant to the selected samples of purchase order and proof of payment. Also, we have reviewed 15 purchase contracts in relation to pharmaceutical and healthcare related products from other independent third parties suppliers or similar transactions as those under 2021 Yuen Tai Master Distribution Agreement in the market covering a period of the two years ended 31 December 2022 and the nine months ended 30 September 2023 and noted that it is a common practice for suppliers to requires payment of deposits upon ordering from the Group. From the samples we have obtained from the Company, we found that the independent third parties suppliers require the purchasers to pay the amount of deposits ranged from 50% of the purchase price to full payment before delivery of the products and hence the deposit amount requested under the 2024 Yuen Tai Master Distribution Agreement is no less favourable than the independent third parties suppliers. Therefore, we consider the payment term of the 2024 Yuen Tai Master Distribution Agreement is reasonable.

In the light of the above and in particular that: (i) the unit prices offered by Yuen Tai would not be higher than the selling price to ensure there is a profit for the Company; (ii) 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 (iii) the payment term of the Group has no significant inconsistency with the market practice, we are of the view that the terms of the 2024 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.

Basis of the proposed annual caps in respect of the 2024 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 2021 Yuen Tai Master Distribution Agreement for two year ended 31 December 2022 and nine months ended 30 September 2023:

| Continuing connected transactions Purchase of Yuen Tai Products | For the year ended 31 December 2021 | | | For the year ended 31 December 2022 | | | For the nine months ended 30 September 2023 |
|--|---|-----------|--|-------------------------------------|--|-----------|---|
| | HKD | RMB | HKD | RMB | HKD | RMB | |
| Actual transaction amount | - (equivalent to approximately) | - | 114,000 (equivalent to approximately) | 97,000 | 3,083,000 (equivalent to approximately) | 2,613,000 | |
| Historical annual caps | 5,620,000 (equivalent to approximately) | 4,734,000 | 10,700,000 (equivalent to approximately) | 9,014,000 | 11,770,000 (equivalent to approximately) | 9,915,000 | |
| Utilisation rate (based on the historical annual caps) | 0.00% | | 1.07% | | 26.19% | | |

There was no purchase of Yuen Tai Products for the year ended 31 December 2021 as 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 the Yuen Tai Products dropped sharply in the market. Hence, the Group and its customers have sufficient inventories of the Yuen Tai Products in the 2021 and the Group did not purchase any Yuen Tai Products for the year ended 31 December 2021. Also, the Group terminated the distributor at the end of 2022 due to the change of business strategy therefore the sales has not yet been recovered in 2022. As discussed with the management of the Group, there would be a new experienced distributor for the sales of Yuen Tai Product and Company expected the purchase in the coming three years would be required in order to meet the target of sales. Also, we have received the purchase order from this distributor regarding the expected quantity to be purchased from Yuen Tai for the three years ending 31 December 2026 from the Company.

Proposed annual caps

The following table sets out the respective proposed annual caps of the continuing connected transactions under the 2024 Yuen Tai Master Distribution Agreement for the three years ending 31 December 2026:

| 2024 Yuen Tai Master Distribution Agreement | For the year ending 31 December 2024 | | For the year ending 31 December 2025 | | For the year ending 31 December 2026 | | | | |
|--|---|----------------------------------|---|-----------|---|-----------|-----------|----------------------------------|-----------|
| | HKD | RMB | HKD | RMB | HKD | RMB | | | |
| Proposed annual caps | 4,032,000 | (equivalent to approximately) | 3,417,000 | 5,707,000 | (equivalent to approximately) | 4,837,000 | 8,981,000 | (equivalent to approximately) | 7,611,000 |

In our assessment of the reasonableness of the proposed annual caps under the 2024 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 2026 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 2024 Yuen Tai Master Distribution Agreement:

- (i) the historical figures of the actual transaction amounts under the 2021 Yuen Tai Master Distribution Agreement for the years ended 31 December 2021 and 31 December 2022; and the unaudited actual transaction amount for the nine months ended 30 September 2023. As discussed earlier, the low transaction under the 2021 Yuen Tai Master Distribution Agreement was due to the pandemic and termination of the sales contract with distributor which we collected the proof of termination indicated the sales distribution through its original distributor being ceased since November 2022. Also, the Company takes time to adjust its sales channel including a more diligent approach to investigate the new distributors in 2023 and hence the utilisation rate is low. Also, pursuant to “Notice on Issuing the 2023 Key Points for Correcting Malpractices in Medical Purchase and Sales and Medical Services” *(關於印發2023年糾正醫藥購銷領域和醫療服務中不正之風工作要點的通知) dated 10 May 2023 issued by the Department of Medical Emergency Response of the National Health Commission* (國家衛生健康委員會醫療應急司), we understand many hospitals had suspended the purchase and sales of medical products and non-basic medical products in the pharmaceutical and medical field and hence the hospitals suspended the purchase of certain products including Yuen Tai Products as they are considered as non-basic medical products. We confirmed with the management of the Company that such guideline affects the sales of Yuen Tai Products therefore the purchases of Yuen Tai Products dropped in 2023. However, the sales would be distributed on platforms without violating the above restriction and guideline advised by the government in the coming three years and hence the sales and purchase of Yuen Tai Products are expected to be resumed;

- (ii) the expected increase in the unit price of the Yuen Tai Products due to the increase in the price of raw materials; and
- (iii) the expected increase in demand for different pharmaceutical and healthcare products from customers based on the three-year sales forecast received from the Group's main distributor. The proposed annual caps are calculated by multiplying the planned purchase 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 (v) below respectively.

Proposed annual caps = Planned purchase quantity x Estimated unit price

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 performing our assessment on the following considerations:

- (i) the purchase forecast of Yuen Tai Products for the three years ending 31 December 2026 proposed by the management of the Group after evaluating the current market condition. We found that the PRC government proposed to boost the birth rate including granting subsidies for families raising child, increasing maternity leave and improving access to fertility treatments pursuant to the meeting of China's People's Political Consultative Conference in the past two years. It is reasonable to expect the demand of medical products related to fertility and women's health, such as Fengbao Jianfu Capsules (鳳寶牌健婦膠囊), one of the Yuen Tai Products would increase;
- (ii) the purchase order plan of Fengbao Jianfu Capsules (鳳寶牌健婦膠囊) issued by the Group's main distributor we obtained from the Company. Accordingly, we noted that such purchase amount expected from this independent third party distributor is over 80% of the proposed annual caps under the 2024 Yuen Tai Master Distribution Agreement on average for the three years ending 31 December 2026 and the estimated total amount of purchase of Fengbao Jianfu Capsules (鳳寶牌健婦膠囊) attributable to such customer in 2024, 2025 and 2026 is expected to be not less than HK\$3.18 million, HK\$4.77 million and HK\$7.95 million, respectively. We found such estimated purchase amount is calculated by multiplying the estimated purchase quantity by the estimated purchase price mentioned in point (iii) and (iv) below respectively;
- (iii) the estimated purchase quantity of the Yuen Tai Products is expected to be increased by not less than 40% from 2024 to 2025 and by not less than 50% from 2025 to 2026 based on the purchase order plan made by the independent third party distributor as discussed in point (ii);

- (iv) the estimated unit price of one of the Yuen Tai Products which its expected purchase amount would be over 80% of the proposed annual caps under the 2024 Yuen Tai Master Distribution Agreement would be increased by approximately 33.61% from the existing annual caps under the 2021 Yuen Tai Master Distribution Agreement to the proposed annual caps contemplated under the 2024 Yuen Tai Master Distribution Agreement by comparing the purchase price stated on the samples of invoice under the 2021 Yuen Tai Master Distribution Agreement and the expected purchase price for transactions under the 2024 Yuen Tai Master Distribution Agreement stated on the internal document prepared by the department of finance of SZ Kingworld, which both documents are obtained from the Company.

Also, we are advised by the management the increase in unit price is due to the increase in the price of the main ingredient. In order to access to the market price of those ingredients, we obtained the Chinese medicine price index from the website of Kangmei Pharmaceutical Co. Ltd (stock code: 600518) (source: <https://cnkmpprice.kmzyw.com.cn/>). 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 authorized 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. We found the increase in the price index of the main ingredients is approximately 96% on average compared with 2021 and 2023 based on the Chinese medicine price index from Kangmei Pharmaceutical Co. Ltd, we are of the view that an increase in the above-mentioned expected purchase price of Yuen Tai Products is reasonable; and

- (v) 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 disclosing 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 we collected from the Company including the purchase invoices issued by Yuen Tai and the sales invoices sent to the customers regarding the Yuen Tai Products for the period from 1 January 2022 to 30 September 2023, we found there was a gross profit margin of not less than 21.2% as the guidance suggested by the Company to ensure the Group will make profit from the distribution of the Yuen Tai Products. Hence, we believe the estimated purchase price of the Yuen Tai Products under the 2024 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.

Based on the factors and reason discussed above, we are of the view that the proposed annual caps for the 2024 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.

B. 2024 SZ Kingworld Lifeshine Master Distribution Agreement

Principal terms of the 2024 SZ Kingworld Lifeshine Master Distribution Agreement

- 1. Date:** 15 December 2023
- 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 2024 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 2024 SZ Kingworld Lifeshine Master Distribution Agreement shall take effect subject to and conditional upon obtaining the Independent Shareholders' approval in respect of the 2024 SZ Kingworld Lifeshine Master Distribution Agreement and the proposed annual caps for the transactions under the agreement.
- 5. Term:** The 2024 SZ Kingworld Lifeshine Master Distribution Agreement is for a term commencing from 1 January 2024 or the date on which the 2024 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 2026 (both days inclusive).
- 6. Pricing Policy:** The 2024 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 if a minimum gross profit margin of approximately 21.2% can be met to ensure the Group will make profit from the distribution of the SZ Kingworld Lifeshine Products. The Group currently maintains a minimum target gross profit margin of approximately 21.2% on average for the distribution of all pharmaceutical and healthcare products where comparable products are not available in the market, which is equally applicable to SZ Kingworld Lifeshine and other independent third parties suppliers. In determining the minimum gross profit margin, the Group has, among others, conducted market research, considered product costs and market competitions. The minimum gross profit margin may be subject to adjustments should there be changes in the market conditions, to ensure that the Group meets market demand and maintains competitiveness. Besides, we collected the historical data regarding the highest, lowest and average gross profit margin of the pharmaceutical and health products of the Group for the two years ended 31 December 2022 and the nine months ended 30 September 2023 from the Company and found the minimum gross profit margin of approximately 21.2% is based on the Group's average gross profit margin for the transactions in relation to the purchase of pharmaceutical and healthcare products for the nine months ended 30 September 2023. The Group shall strive for a higher gross profit margin that is not less than gross profit margin of approximately 21.2%.

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 2024 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 third parties 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 2024 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 a minimum gross profit margin of approximately 21.2% (if comparable product is not available in the market), 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.

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.

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 2024 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 2021 SZ Kingworld Lifeshine Master Distribution Agreement covering period from 1 January 2021 to 30 September 2023 and selected 15 samples which represented not less than 5% of the total historical amount 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. We consider setting the selection criteria with transaction amount of not less than 5% of the total historical transaction amount under each of the 2021 Master Distribution Agreement covering the highest transaction amount with at least 10 samples is sufficient for us to do the assessment. Therefore, we are of the view the selected samples meet the above mentioned criteria and are fair and representative. As confirmed with the management of the Group that the Company would conduct a search on the market price of similar products sold by other independent third parties and consider these references in relation to the unit price for similar products in the market and noted that the price of the SZ Kingworld Lifeshine Products offered by SZ Kingworld Lifeshine was no less favourable than those offered by other independent suppliers. In addition, as set out above, the Group shall have the right to terminate or cancel the transactions if the terms and conditions are less favourable to the Group than those offered by other independent suppliers and the

Group is not obliged to purchase products from SZ Kingworld Lifeshine if other independent suppliers are able to offer products to the Group at more favourable terms and as such, we are of the view that such arrangement is fair and reasonable and is in the interests of the Company and Shareholders as a whole.

As mentioned above, we have obtained samples of purchase invoices issued by SZ Kingworld Lifeshine to the Group in relation to the transactions under the 2021 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 2024 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 parties.

As advised by the Directors, since the Group is the exclusive distributor of the SZ Kingworld Lifeshine Products in the Greater China, 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. The transactions conducted under the 2021 SZ Kingworld Lifeshine Master Distribution Agreement complied with such payment terms pursuant to the selected samples of purchase order and proof of payment. As disclosed in the payment terms under the 2024 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 15 purchase contracts in relation to pharmaceutical and healthcare products from other independent third parties suppliers or similar transactions as those under 2021 SZ Kingworld Lifeshine Master Distribution Agreement in the market covering a period of the two years ended 31 December 2022 and the nine months ended 30 September 2023 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 third parties suppliers require the purchasers to pay the amount of deposits ranged from 50% of the purchase price to full payment before delivery of the products and hence the deposit amount requested under the 2024 SZ Kingworld Lifeshine Master Distribution Agreement is no less favourable than the independent third parties suppliers. Therefore, we consider the payment term of the 2024 SZ Kingworld Lifeshine Master distribution Agreement is reasonable.

In the light of the above and in particular that: (i) the pricing policy of the Group is similar to those of other listed companies; (ii) the unit prices and the terms of purchase offered by SZ Kingworld Lifeshine are no less favourable than those offered by other independent suppliers; (iii) the Group has the right to terminate or cancel the transactions if the terms and conditions are less favourable to the Group than those offered by other independent suppliers and (iv) the payment term of the Group has no significant inconsistency with the market practice, we are of the view that the terms of the 2024 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 2024 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 2021 SZ Kingworld Lifeshine Master Distribution Agreement for the two years ended 31 December 2022 and for the nine months ended 30 September 2023:

| Continuing connected transactions | For the year ended 31 December 2021 | | | For the year ended 31 December 2022 | | | For the nine months ended 30 September 2023 | | |
|--|-------------------------------------|-------------------------------|------------|-------------------------------------|-------------------------------|------------|---|-------------------------------|------------|
| | HKD | RMB | HKD | RMB | HKD | RMB | | | |
| Purchase of SZ Kingworld Lifeshine Products | | | | | | | | | |
| Actual transaction amount | 33,801,000 | (equivalent to approximately) | 28,645,000 | 37,320,000 | (equivalent to approximately) | 31,627,000 | 18,024,000 | (equivalent to approximately) | 15,275,000 |
| Historical annual caps | 46,510,000 | (equivalent to approximately) | 39,180,000 | 52,564,000 | (equivalent to approximately) | 44,280,000 | 62,061,000 | (equivalent to approximately) | 52,280,000 |
| Utilisation rate (based on the historical annual caps) | 73.11% | | | | 71.43% | | | | 29.22% |

For the two years ended 31 December 2022 and for the nine months ended 30 September 2023, the total amount of historical transactions of SZ Kingworld Lifeshine Products purchased by the Group from SZ Kingworld Lifeshine were RMB28,645,000, RMB31,627,000 and RMB15,275,000 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 2023. The low utilization rate of SZ Kingworld Lifeshine is due to the decline in sales since the selling price has increased from April 2022.

Proposed annual caps

The following table sets out the respective proposed annual caps of the continuing connected transactions under the 2024 SZ Kingworld Lifeshine Master Distribution Agreement for the three years ending 31 December 2026:

| 2024 SZ Kingworld Lifeshine Master Distribution Agreement | | For the year ending 31 December 2024 | | For the year ending 31 December 2025 | | For the year ending 31 December 2026 | | | |
|---|------------|--------------------------------------|------------|--------------------------------------|-------------------------------|--------------------------------------|-------------|-------------------------------|-------------|
| | HKD | RMB | HKD | RMB | HKD | RMB | | | |
| Proposed annual caps | 58,032,000 | (equivalent to approximately) | 49,180,000 | 98,950,000 | (equivalent to approximately) | 83,856,000 | 145,535,000 | (equivalent to approximately) | 123,335,000 |

In our assessment of the reasonableness of the proposed annual caps under the 2024 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 2026 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 2024 SZ Kingworld Lifeshine Master Distribution Agreement:

- (i) the historical figures of the actual transaction amounts under the 2021 SZ Kingworld Lifeshine Master Distribution Agreement for the years ended 31 December 2021 and 31 December 2022 and the unaudited actual transaction amount for the nine months ended 30 September 2023. As discussed earlier, the low transaction under the 2021 SZ Kingworld Lifeshine Master Distribution Agreement for the nine months ended 30 September 2023 is due to the drop in sales since the selling price has raised since April 2022; and
- (ii) the expected increase in 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 (v) below respectively.

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

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 performing the following considerations:

- (i) the purchase forecast plan of SZ Kingworld Lifeshine Products for the three years ending 31 December 2026 proposed by the management of the Group. We found that the expected purchase amount of Imada Red Flower Oil (the “**Existing SZ Kingworld Lifeshine Products**”) is not less than 70% of the SZ Kingworld Lifeshine Products under 2024 SZ Kingworld Lifeshine Mater Distribution Agreement for each of the three years ending 31 December 2026. The estimated purchase quantity for the Imada Red Flower Oil is approximately 6.22 million bottles, 10.30 million bottles and 14.71 million bottles for the coming three years respectively according to the forecast plan. Regarding the purchase forecasts provided by the Company, we have performed below desktop search and noted that the expected increase in demand for the Imada Red Flower Oil is driven by factors such as (a) aging population in the PRC which would lead to an increase in the number of customers. According to the latest data published in National Bureau of Statistics of China (source: <https://www.stats.gov.cn/sj/ndsj/2022/indexch.htm>), we found the population in the age of 65 and above was approximately 128 million in 2012 and 201 million in 2021, which is an increase of approximately 57% over a decade. Also, we studied the analysis of PRC's demographic trends and implication based on the seventh national population census issued by KPMG, a multinational professional services firm (source: <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2021/07/china-demographic-trends-and-implications-for-business.pdf>) and found the population in the age of 65 and over in PRC is expected to reach at around 247 million in 2030 in the PRC. Furthermore, Imada Red Flower Oil would help relieving pain, promoting blood circulation and dispelling cold as introduced under product description on the website of SZ Kingworld Lifeshine (source: <https://www.kingworldlifeshine.com/hhyjs>). We noted those are some common and chronic diseases which elderly often suffer from according to the statistics we collected from the report named Musculoskeletal and Joint Pain in 2022 China Consumer Health Insights Report*(《2022年中國消費者健康洞察報告》「肌肉骨骼關節疼痛篇」) issued by Sinohealth, a PRC leading high-tech company powered by big data for health industry (source: <https://www.sinohealth.cn/sys-nd/657.html>), that middle-aged and elderly are affected by joint de generation, long-term strain and the corresponding severe chronic pain and there is approximately 60% of the patient would be suffered by those symptoms persistently for three years or less; and (b) improved awareness of

personal health protection and purchasing power of patients after the ease of prevention and control measures under the outbreak of COVID-19 pandemic, which would result in an increase in purchase amount per customer. We noticed the “Health China 2030” promulgated in 2016 and “14th Five-Year Plan” promulgated in 2021 by the government in PRC both emphasized the strategic importance of the healthcare industry in China’s development plan. We are of the view the innovations in the healthcare industry have been continuously enhancing the medical capabilities of service providers and the experiences of the service receivers, which increases the customers’ willingness to pay. Moreover, we obtained the report named “Global Use of Medicines 2023” issued by IQVIA, the leading global provider of advanced analytics, technology solutions and clinical research services to the life sciences industry platform on 18 January 2023 and we found medicine spending in China has risen from USD93 billion in 2013 to USD166 billion in 2022, and it is forecasted to reach USD194 billion by 2027, representing an approximately 17% of increase in medicines expenditure in the next five years. Therefore, we consider the accelerated aging population, along with favorable policies would enhance a growing market for the Imada Red Flower Oil;

- (ii) the expected expansion of its distribution scale resulting in a possible increase in the value of transactions to be entered into between the Group and SZ Kingworld Lifeshine. As confirmed by the management of the Company, the retail outlets which sell the SZ Kingworld Lifeshine Products will be increased from approximately 176,000 at the end of 2024 to approximately 240,000 at the end of 2025 and approximately 308,000 at the end of 2026.

As discussed with the management of the Company and the data of retail outlets and their corresponding sales generated by SZ Kingworld Lifeshine Products obtained from the Company, we found (a) the expected sales of the Existing SZ Kingworld Lifeshine Products is determined by the expected number of retail outlets and the historical average sales generated per retail outlets for the two years ended 31 December 2022 and the nine months ended 30 September 2023; (b) based on the expected sales in above, the sales distributor of SZ Kingworld is expected to procure approximately RMB39 million, RMB60 million and RMB82 million of the Existing SZ Kingworld Lifeshine Products for the three years ending 31 December 2026 in order to meet the sales plan with the above mentioned expansion of retail outlets taking into account that (c) the expected purchase amount of the Existing SZ Kingworld Lifeshine Products is over 70% of the proposed annual caps under the 2024 SZ Kingworld Lifeshine Master Distribution Agreement on average for the three years ending 31 December 2026. We also reviewed the location of retail outlets which sell the SZ Kingworld Lifeshine Products and found that the number of cities covered for the retail will be increased from 292 for the nine months ended 30 September 2023 to 308 for the year ending 31 December 2024;

- (iii) the expected growth of the demand for different pharmaceutical and healthcare products from customers discussed in point (i) due to the expansion of the Group's distribution network and marketing promotion, such as online retail platform and events sponsorship. Pursuant to the news we found on the website of state council of PRC regarding the national online retail sales in 2022 (source: https://www.gov.cn/xinwen/2023-01/31/content_5739339.htm), we noted the national online retail sales was approximately RMB13.79 trillion in 2022, an increase of 4% compared with 2021. Also, the e-commerce platform provides more than 120 million live broadcasts with over 1.1 trillion of views to expand and cover retail products.

Besides, as stated in Letter from the Board, the Group would increase marketing efforts to promote sales such as sponsoring of marathons and other events to strengthen brand awareness and reputation of the products. Based on the sales data of SZ Kingworld Lifeshine Products we obtained from the Company, we found that the month to month increase in sales ranged from approximately 151% to approximately 615% in cities where the marathon was sponsored by the Group in 2023. Also, as discussed with the management of the Company, the Group is expected to sponsor at least ten marathons in various cities 2024. Therefore, we are of the view that both the online distribution network and event sponsorship would be a positive marketing strategy for the Group to distribute its products and this would require the procurement of SZ Kingworld Lifeshine Products to meet the need of such expected growth.

- (iv) the estimated purchase price of the SZ Kingworld Lifeshine Products is expected to be charged 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. 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 market price of comparable products of SZ Kingworld Lifeshine Products we collected from the Company, we 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 found the price offered by SZ Kingworld Lifeshine to be no less favourable than those offered by independent third parties; and

- (v) the various new products other than the Existing SZ Kingworld Lifeshine Products are expected to purchase from SZ Kingworld Lifeshine based on the expected sales plan for the three years ending 31 December 2026. Pursuant to the market research obtained from the Company, we found the expected purchase price of the new products under the 2024 SZ Kingworld Lifeshine Master Distribution Agreement is lower than the purchase price offered by the independent third parties on similar products of SZ Kingworld Lifeshine Products.

According to the expected distribution scale mentioned in point (ii), we found the expected purchase amount of new SZ Kingworld Lifeshine Products is approximately 27% of the proposed annual caps under the 2024 SZ Kingworld Lifeshine Master Distribution Agreement on average for the three years ending 31 December 2026 with the assumption of those new products would be also distributed in the same sales channel of the Existing SZ Kingworld Lifeshine Products.

We found the expected sales amount of the two main new products under the 2024 SZ Kingworld Lifeshine Master Distribution Agreement is less than 1% of the total sales of similar products in the market pursuant to the research conducted. Hence, we are of the view of the expected price and quantity of the new products to be purchased from the SZ Kingworld are reasonable.

B. Conclusion

Based on the factors and reason discussed above, we are of the view that the proposed annual caps of the 2024 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 2024 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 2024 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 2024 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

assure that the existing and possible future agreements entered and to be entered with any connected parties are and will be on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders. According to the profit calculation standard issued by the department of finance dated 31 December 2022, the purchase price offered by Yuen Tai and SZ Kingworld Lifeshine would be accepted by the Group if a minimum gross profit margin can be met 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 2024 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 2024 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 2024 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 2024 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 2024 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 2024 Master Distribution Agreements have been approved by the Board; (b) the transactions were entered into, in all material respects, in accordance with the 2024 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 30 March 2023 in relation to the 2021 Yuen Tai Master Distribution Agreement and 2021 SZ Kingworld Lifeshine

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 2024 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 2024 Master Distribution Agreements is in the ordinary and usual course of business of the Group; (ii) the terms of the 2024 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 2026 for each of the 2024 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 2024 Master Distribution Agreements and their respective proposed annual caps for the three years ending 31 December 2026.

Yours faithfully,
For and on behalf of
Vinco Financial 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 Financial 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.