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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kingworld Medicines Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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KINGWORLD MEDICINES GROUP LIMITED
金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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

VINCO 

Grand Vinco Capital Limited

(A wholly-owned subsidiary of Vinco Financial Group Limited)

A letter from the Board is set out on pages 6 to 20 of this circular. A letter from the Independent Board Committee is set out on pages 21 to 22 of this circular. A letter from Vinco Capital, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 44 of this circular.

A notice convening the EGM to be held at 3rd Floor, Crowne Plaza Hotel & Suites Landmark Shenzhen, No. 3018 Nanhu Road, Luohu District, Shenzhen, the PRC, at 10:00 a.m. on Saturday, 29 November 2014 is set out on pages 50 to 51 of this circular. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable, and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

14 November 2014

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DEFINITIONS

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

“Announcements”	the announcements of the Company dated 15 September 2014, 9 October 2014, 30 October 2014 and 11 November 2014 respectively in relation to the Subscription Agreement and the transactions contemplated thereunder
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	board of directors of the Company
“Bondholder(s)”	the holder of the Convertible Bond
“Business Day”	a day (other than Saturday and days on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong for general business
“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
“Company Warranties”	the warranties, representations and undertakings of the Company set out in the Subscription Agreement
“Conditions”	the terms and conditions to the Convertible Bond
“Conditions Precedent”	the conditions precedent to the Closing as set out in the Subscription Agreement
“Closing”	closing of the subscription for the Convertible Bond in accordance with the terms of the Subscription Agreement
“Closing Date”	the date on which the Closing occurs, which shall be on the fifth Business Day (or such other day the Parties may agree before the Closing) after the Conditions Precedent are fulfilled or otherwise waived
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Conversion Date”	the date on which a conversion notice is served by the Bondholder
“Conversion Period”	the period commencing from the issue date of the Convertible Bond and ending upon the Maturity Date

DEFINITIONS

“Conversion Price”	the Initial Conversion Price (subject to adjustments as set out in Conditions)
“Conversion Rights”	the rights of the Bondholder to convert the whole or any part of outstanding principal amount of the Convertible Bond held by it into Shares
“Conversion Shares”	Shares allotted and issued upon an exercise of the Conversion Rights
“Convertible Bond”	the convertible bond in the principal amount of HK\$133,837,500 to be issued to the Subscriber on the Closing Date pursuant to the Subscription Agreement with the benefit of and subject to the Conditions
“Deed of Novation”	the deed in respect of the Novation in such form and substance as set out in the Subscription Agreement
“Designated Party(ies)”	any fund(s) or company(ies) directly or indirectly controlled or managed by the Subscriber or its direct or indirect shareholder(s) through any arrangement
“Directors”	directors of the Company
“Disposal”	has the meaning ascribed to it under the section headed “EGM” in the Letter from the Board in this circular
“EGM”	extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, to approve the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate
“Event(s) of Default”	the events of default of the Convertible Bond as stipulated under the Conditions
“Golden Land”	Golden Land International Limited (金國國際有限公司), a limited liability company incorporated in the BVI which holds approximately 57.83% of the issued share capital of the Company and wholly owned by Mr. Zhao as at the Latest Practicable Date
“Golden Morning”	Golden Morning International Limited (金辰國際有限公司), a limited liability company incorporated in the BVI which holds approximately 14.46% of the issued share capital of the Company and wholly owned by Ms. Chan as at the Latest Practicable Date
“Group”	the Company and its subsidiaries

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee, comprising all the independent non-executive Directors, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, established to consider and advise the Independent Shareholders in respect of the fairness and reasonableness of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate
“Independent Shareholders”	Shareholders other than Mr. Zhao and his associates and those who are involved in or interested in the transactions contemplated under the Subscription Agreement who are required by the Listing Rules to abstain from voting in respect of the resolution(s) relating to the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate, at the EGM
“Independent Third Party(ies)”	to the best of the Directors’ knowledge, information and belief after having made all reasonable enquiries, any third party(ies) that is (are) independent of the Company and its connected persons
“Initial Conversion Price”	HK\$2.15
“Last Trading Day”	12 September 2014, being the last trading day in the Shares immediately before the date on which the Original Subscription Agreement was signed
“Latest Practicable Date”	11 November 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information referred to in this circular
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange
“Long Stop Date”	15 December 2014 (or such other date the Parties may agree in writing)
“major subsidiaries”	any subsidiaries of the Company falling within the meaning of major subsidiaries under Rule 13.25(2) of the Listing Rules
“Mandatory Conversion”	has the meaning ascribed to it under the section headed “PRINCIPAL TERMS OF THE CONVERTIBLE BOND” in the Letter from the Board in this circular

DEFINITIONS

“Maturity Date”	the date falling on the expiry of eighteen months (18) commencing from the date of issue of the Convertible Bond or if such date is not a Business Day, the Business Day immediately following such date
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules
“Mr. Zhao”	Zhao Li Sheng (趙利生), the chairman, an executive Director and co-founder of the Company and the sole shareholder of Golden Land
“Ms. Chan”	Chan Lok San (陳樂榮), an executive Director and co-founder of the Company and the sole shareholder of Golden Morning
“Novation”	has the meaning ascribed to it under the section headed “THE SUBSCRIPTION AGREEMENT” in the Letter from the Board in this circular
“Original Subscription Agreement”	the subscription agreement entered into between the Company and the Subscriber on 15 September 2014 in relation to the issue of the Convertible Bond
“Party(ies)”	a party or parties to the Subscription Agreement
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Shareholder(s)”	holder(s) of Shares
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Specific Mandate”	the specific mandate to be granted to the Directors at the EGM for the allotment and issue of the Convertible Bond to the Subscriber or its Designated Party(ies) and the Conversion Shares to the Subscriber or its Designated Party(ies) or other Bondholder upon an exercise of the Conversion Rights
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	國藥集團資本管理有限公司 (Sinopharm Capital Management Company Limited*)
“Subscriber Warranties”	the warranties, representations and undertakings of the Subscriber set out in the Subscription Agreement

DEFINITIONS

“Subscription Agreement”	the Original Subscription Agreement as amended and supplemented by the letters of confirmation entered into by the Parties on 17 September 2014 and 19 September 2014 respectively and the Supplemental Agreement, and as varied, amended, modified, varied or supplemented in writing by the Parties from time to time
“Supplemental Agreement”	the supplemental agreement to the Original Subscription Agreement entered into between the Company and the Subscriber on 9 October 2014
“SZ Industry”	深圳市金活實業有限公司 (Shenzhen Kingworld Industry Company Limited*), a limited liability company established in the PRC
“SZ Kingworld”	深圳市金活醫藥有限公司 (Shenzhen Kingworld Medicine Company Limited*), a limited liability company established in the PRC
“VincO Capital”	Grand VincO Capital Limited, a wholly-owned subsidiary of VincO Financial Group Limited (Stock code: 8340), a corporation licensed to carry out business in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate
“%”	per cent

For the purpose of this circular, unless otherwise specified or the context requires otherwise, “” denotes an English translation of a Chinese name and is for identification purpose only, In the event of any inconsistency, the Chinese names shall prevail.*

LETTER FROM THE BOARD



KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

Executive Directors:

Mr. Zhao Li Sheng

Ms. Chan Lok San

Mr. Zhou Xuhua

Mr. Lin Yusheng

Independent Non-executive Directors:

Mr. Duan Jidong

Mr. Zhang Jianbin

Mr. Wong Cheuk Lam

Registered Office:

Appleby Trust (Cayman) Ltd.

Clifton House

75 Fort Street

PO Box 1350

Grand Cayman

KY1-1108

Cayman Islands

Principal Place of Business in Hong Kong:

Units 1906-1907, 19th Floor

Shui On Centre

6-8 Harbour Road

Wanchai

Hong Kong

14 November 2014

To the Shareholders

Dear Sir or Madam,

**ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcements. As disclosed in the Announcements, the Company and the Subscriber had entered into the Original Subscription Agreement on 15 September 2014 (which was further amended and supplemented by the Supplemental Agreement on 9 October 2014). Pursuant to the Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bond in an aggregate principal amount of HK\$133,837,500 subject to the terms and conditions thereof.

LETTER FROM THE BOARD

The main purpose of this circular is to provide you with, among other things:

- (a) further details of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate;
- (b) a letter of recommendation from the Independent Board Committee in respect of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate;
- (c) a letter of advice from Vinco Capital in respect of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate; and
- (d) the notice of the EGM.

THE SUBSCRIPTION AGREEMENT

The principal terms of the Subscription Agreement are as follows:

Issuer: the Company

Subscriber: the Subscriber

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Subscriber and its ultimate beneficial owners are Independent Third Parties.

Novation: The Company and the Subscriber have agreed that the Subscriber was entitled to transfer all of its rights and benefits under the Subscription Agreement to the Designated Party(ies) designated by the Subscriber, and such Designated Party(ies) shall assume and perform of the obligations and liabilities originally assumed by the Subscriber under the Subscription Agreement as if it (they) were party(ies) to the Subscription Agreement (the "**Novation**").

If the Closing occurs before the execution date of the Deed of Novation, the Subscriber shall on such execution date transfer the Convertible Bond to the same Designated Party(ies) in accordance with the terms set out in the Conditions.

For the avoidance of doubt, if the Company is willing to execute the Deed of Novation, yet by the Long Stop Date the Subscriber has not ascertained the Designated Party(ies) or the Subscriber and the Designated Party(ies) designated by the Subscriber have not executed the Deed of Novation, the Subscriber shall still be entitled to all rights, and liable to perform all obligations and liabilities under the Subscription Agreement.

LETTER FROM THE BOARD

Specific Mandate

The Conversion Shares shall be allotted and issued under the Specific Mandate to be obtained from the Independent Shareholders at the EGM.

Ranking

The Conversion Shares, when issued and fully paid, will rank pari passu among themselves and with the Shares then in issue at the time of the allotment and issue of the Conversion Shares.

The Conversion Shares will not be subject to any lock-up or other disposal restriction under the terms of the Subscription Agreement.

Conditions Precedent

The Closing is conditional upon the following conditions being fulfilled (or waived by the relevant Party in writing) at or before 5:00 p.m. (Hong Kong time) on the Long Stop Date:

- (a) the Listing Committee of the Stock Exchange having granted the listing of and the permission to deal in all Shares that fall to be issued upon the exercise in full of the Conversion Rights attaching to the Convertible Bond;
- (b) the Company Warranties remaining true and accurate and not misleading in all material respects as at the Closing;
- (c) the Subscriber Warranties remaining true and accurate and not misleading in all material respects as at the Closing; and
- (d) the resolutions for approving the Subscription Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bond and the Conversion Shares) shall have been obtained from the independent Shareholders by way of poll at the EGM.

It was also one of the Subscriber Warranties that the Subscriber has represented, warranted and undertaken that it shall designate its Designated Party(ies) and complete the Novation in accordance with the terms of the Subscription Agreement within two months from the date of the Original Subscription Agreement.

If any of the Conditions Precedent is not fulfilled (or waived in writing by the Subscriber as to Condition Precedent (b) and by the Company as to Condition Precedent (c), which waiver if granted may be subject to such conditions as such Party deems fit) at or before 5:00 p.m. (Hong Kong time) on or before the Long Stop Date or such other time and/or date as the Company and the Subscriber shall mutually agree, the Subscription Agreement (except certain provisions relating to definitions, notice, governing law etc.) shall forthwith become null and void and cease to have any effect whatsoever and neither Party shall have any claims against the other for costs, damages, compensations or otherwise (save for liabilities for any antecedent breaches of the Subscription Agreement).

LETTER FROM THE BOARD

In exercising the discretion to waive any compliance with the Subscriber Warranties, the Directors will act in accordance with their director's duties owed to the Company and the Shareholders as a whole, including but not limited to acting in good faith for the benefit of the Company and the Shareholders as a whole using power for proper purpose, exercising care, skill and diligence.

As such, the Directors may waive the Subscriber's strict compliance with certain Subscriber Warranties, such as extending the time limit for completion of the Novation, if such waiver will give the Company commercial flexibility and will not have material impact on the Subscription Agreement and the transactions contemplated thereunder. The Board confirms that it will not waive the Subscriber's compliance with such Subscriber Warranties which, in the Directors' reasonable opinion, may be material to the Subscription Agreement and the transactions contemplated thereunder.

Closing

Subject to the fulfilment or waiver (as the case may be) of the Conditions Precedent, the Closing shall take place at the principal place of business of the Company in Hong Kong on or before 5:00 p.m. (Hong Kong time) on the Closing Date (or such other time, date and place the Parties shall otherwise agree).

Nomination of non-executive Director

The Subscriber shall have the one-off right to nominate one non-executive Director to the board of directors of the Company upon Closing, and such nomination shall be accepted by the Company subject to the compliance of the Listing Rules in relation to the requirement and qualification imposed on the directors of a listed company. Such right is available to the Subscriber in its capacity as an investor upon Closing, it is not a right attached to the Shares to be converted under the Convertible Bond and held by the Subscriber.

The Directors believe that the Subscriber has expertise, experience and knowledge in the PRC medical and healthcare industry and strategic insight in relation to the Company's future development and acquisitions opportunities, and the Company will be able to benefit from such expertise, experience and knowledge of the Subscriber through the performance of the additional non-executive Director's duties.

Termination

If at any time on or prior to the Closing Date:

- (a) the Company commits any material breach of any Company Warranties or omits to perform or observe any of its other obligations or undertakings expressed to be assumed by it under the Subscription Agreement in any material aspect (including its obligations on the Closing); or
- (b) the Subscriber commits any material breach of any Subscriber Warranties or omits to perform or observe any of its other obligations or undertakings expressed to be assumed by it under the Subscription Agreement in any material aspect (including its obligations on the Closing); or

LETTER FROM THE BOARD

- (c) an Event of Default or a prospective Event of Default has occurred and has not been remedied to the satisfaction of the other Party on or prior to the Closing Date,

then, in any such case, the aforesaid other Party may on or before the Closing Date in its absolute discretion without any liability on its part, by notice in writing terminate the Subscription Agreement. The right to forthwith terminate the Subscription Agreement under each of paragraphs (a) to (c) above is a separate and independent right and the exercise of any such right shall not affect or prejudice or constitute a waiver of any other right, remedy or claim which the aforesaid other Party may have as at the date of such notice.

Indemnification

The Company has undertaken that it shall at all times following the date of the Subscription Agreement, keep the Subscriber indemnified, on demand, against all losses, damages, costs and expenses which may be reasonably incurred or suffered by the Subscriber as a result of any breach of the Company Warranties, the undertaking, guarantee, covenant or obligation of the Company contained in the Subscription Agreement, including without limitation, the failure of the Company to proceed with the Closing in accordance with the terms and conditions set out in the Subscription Agreement provided that the Company shall have received from the Subscriber a written notice of a claim in respect of the Company Warranties specifying in reasonable details the event or default to which the claim relates and the nature of the breach not later than the expiry of a period of eighteen (18) months after the date of the Subscription Agreement, and the amount claimed exceeds HK\$1,000,000.

The Subscriber has undertaken that it shall at all times following the date of the Subscription Agreement, keep the Company indemnified, on demand, against all losses, damages, costs and expenses which may be reasonably incurred or suffered by the Company as a result of any breach of the Subscriber Warranties, the undertaking, guarantee, covenant or obligation of the Subscriber contained in the Subscription Agreement, including without limitation, the failure of the Subscriber to proceed with the Closing in accordance with the terms and conditions set out in the Subscription Agreement provided that the Subscriber shall have received from the Company a written notice of a claim in respect of the Subscriber Warranties specifying in reasonable details the event or default to which the claim relates and the nature of the breach not later than the expiry of a period of eighteen (18) months after the date of the Subscription Agreement, and the amount claimed exceeds HK\$1,000,000.

The minimum threshold of HK\$1,000,000 was determined on the following basis:

- (a) the Parties considered it necessary to prescribe a de minimis limit for indemnification claims in order to avoid administrative inconvenience and costs caused by trivial claims;
- (b) the threshold of HK\$1,000,000 represents approximately 0.75% of the principal amount of the Convertible Bond, which was mutually agreed between the Parties to be an appropriate level to filter the trivial claims;
- (c) such limitation on claims was mutual to both Parties; and

LETTER FROM THE BOARD

- (d) the Directors considered that agreeing to the minimum threshold was not detrimental to the Company because upon Closing, the Company will issue the Convertible Bond only upon the Subscriber's performance of its primary obligation under the Subscription Agreement (i.e. payment of the subscription price).

PRINCIPAL TERMS OF THE CONVERTIBLE BOND

The principal terms of the Convertible Bond are as follows:

Principal Amount:	HK\$133,837,500
Interest Rate:	7.4% per annum of the outstanding principal amount of the Convertible Bond Interest shall be accrued daily on a 360 days basis and is payable by the Company to the Bondholder on bi-annual basis, with the first interest payment for the Convertible Bond to be made on the date falling on 6 months from the date of issue of the Convertible Bond and thereafter on the last day of each successive half-yearly period up to the Maturity Date.
Status of the Convertible Bond:	The Convertible Bond constitutes a direct, unconditional, unsecured and unsubordinated obligation of the Company and ranks <i>pari passu</i> and rateably without preference (with the exception of obligations in respect of taxes and certain other statutory exceptions) with all other unsecured and unsubordinated obligations of the Company.
Transfer of the Convertible Bond:	The Convertible Bond may be assigned or transferred in whole or in part of its outstanding principal amount. Such transfer or assignment shall be in compliance with the terms of the Convertible Bond. The permitted assignment or transfer of the Convertible Bond may only be made to person(s) which are not connected persons of the Company except in accordance with the Listing Rules.
Conversion Price:	The Initial Conversion Price of HK\$2.15 per Conversion Share represents: (a) a discount of approximately 19.78% over the closing price of HK\$2.68 per Share as quoted on the Stock Exchange on the Last Trading Day; (b) a discount of approximately 16.02% over the average of the closing prices of HK\$2.56 per Share as quoted on the Stock Exchange for the last five consecutive trading days of the Shares up to and including the Last Trading Day; and (c) a discount of approximately 12.60% over the average of the closing prices of HK\$2.46 per Share as quoted on the Stock Exchange for the last ten consecutive trading days of the Share up to and including the Last Trading Day. The Initial Conversion Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the prevailing market price of the Shares and the business performance of the Group under the prevailing market conditions.

LETTER FROM THE BOARD

**Adjustments to
Conversion
Price:**

The Initial Conversion Price will be subject to adjustment in certain events, including:

- (a) an alternation of the nominal amount of the Shares by reasons of share consolidation or subdivision;
- (b) an issue by the Company of Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);
- (c) a capital distribution made by the Company to the Shareholders (whether on a reduction of capital or otherwise) or a grant by the Company to the Shareholders of rights to acquire for cash assets of the Company or any of its subsidiaries;
- (d) an offer by the Company to the Shareholders of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe for new Shares to the Shareholders at a price which is less than 80% of the market price at the date of the announcement of the terms of the offer or grant;
- (e) (i) an issue by the Company wholly for cash of any securities which by their terms are convertible into or exchange for or carry rights of subscription for new Shares, and the total effective consideration per Share initially receivable for such securities is less than 80% of the market price at the date of the announcement of the terms of issue of such securities; and (i) any modification of the rights of conversion or exchange or subscription attached to any such securities as are mentioned in (i) above so that the total effective consideration per Share initially receivable for such securities shall be less than 80% of the market price at the date of announcement of the proposal for modification; and for the purposes of this sub-paragraph, the “total effective consideration” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the effective consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue;
- (f) an issue by the Company of any Share wholly for cash at a price per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue; and

LETTER FROM THE BOARD

- (g) an issue by the Company of any Share for the acquisition of asset at a total effective consideration per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue; and for the purpose of this sub-paragraph, the “total effective consideration” shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “total effective consideration per Share” shall be the total effective consideration divided by the number of Shares issued as aforesaid.

Conversion:

Subject to, and upon compliance with, the provisions of the Conditions, the Bondholder shall have the right to convert the whole or any part of the outstanding principal amount of the Convertible Bond (irrespective whether the Convertible Bond may be held by more than one Bondholder) into Shares at any time and from time to time during the Conversion Period provided that each conversion must be in respect of a minimum aggregate principle amount of HK\$13,383,750. The price at which each Share shall be issued upon an exercise of the Conversion Rights shall be the Conversion Price in force at the relevant Conversion Date. Assuming full conversion of the Convertible Bond at the Initial Conversion Price, the Convertible Bond will be converted into approximately 62,250,000 Shares, representing approximately 10.00% of the existing issued share capital of the Company and approximately 9.09% of the issued share capital of the Company as enlarged by the full conversion of the Convertible Bond.

Pursuant to the Conditions, the Bondholder shall not have the right to convert the whole or part of the outstanding principal amount of the Convertible Bond into Shares to the extent that immediately after such conversion (a) the minimum public float requirement for the Shares as required under the Listing Rules could not be maintained; or (b) the Bondholder whether alone or together with parties acting in concert with it will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company as enlarged by such conversion (or in such other percentage lower than 30% as may from time to time be specified in the Codes on Takeovers and Mergers and Share Buy-backs being the level for triggering a mandatory general offer).

Mandatory Conversion:

The Bondholder shall mandatorily convert the whole of the principal moneys outstanding under the Convertible Bond into Conversion Shares on a date falling on or after the Maturity Date (the “**Mandatory Conversion**”).

For the avoidance of doubt, no request for the repayment of any part of the principal moneys outstanding under the Convertible Bond can be made by the Bondholder to the Company unless there is any occurrence of Events of Default prior to the Maturity Date.

LETTER FROM THE BOARD

**Events of
Default:**

If any of the following event or circumstances occurs prior to (but not after) the Maturity Date, the Bondholder may give notice to the Company that the Convertible Bond is, and it shall on the giving of such notice immediately become, due and payable at its principal amount and all other sums payable under the Convertible Bond (including any accrued but unpaid interests):

- (a) the Company fails to pay any amount due in respect of the Convertible Bond unless non-payment of such amount is due to administrative or technical error and payment is made within 5 Business Days of the due date thereof; or
- (b) the Company defaults in the performance or observance of or compliance with any of its other obligations set out under the Convertible Bond which default is incapable of remedy or, if capable of remedy, is not remedied within 20 Business Days after notice of the occurrence of such default by the Bondholder; or
- (c) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its major subsidiaries (and, where any such appointment is made in relation to a major subsidiary, the appointment is not discharged within 20 Business Days of it being made); or
- (d) the Company or any of its major subsidiaries becomes insolvent or is unable to pay its debts as they fall due or applies for or consents to or suffers the appointment of any administrator, liquidator or receiver of the Company or any of its major subsidiaries or the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its major subsidiaries (and, where any such appointment is made in relation to a major subsidiary, the appointment is not discharged or withdrawn within 20 Business Days of it being made) or takes any proceeding under any law for a readjustment or deferment of its respective obligations or any part of them or makes or enters into a general assignment or compromise with or for the benefit of its respective creditors; or
- (e) a petition is presented or a proceeding is commenced or an order is made or an effective resolution is passed for the winding-up, insolvency, administration or dissolution of the Company or any of its major subsidiaries (and where any such petition, proceeding or order is presented, commenced or made in relation to a major subsidiary, such petition, proceeding or order is not set aside or withdrawn within 20 Business Days of it being filed, commenced or made), except in the case of winding-up of any subsidiaries of the Company in the course of internal reorganisation without involving insolvency; or

LETTER FROM THE BOARD

- (f) a moratorium is agreed or declared in respect of any indebtedness of the Company or any of its major subsidiaries (and, in the case of a major subsidiary, is not lifted within 20 Business Days of it being agreed or declared) or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets of the Company or any of its major subsidiaries.

Voting: The Bondholder shall not be entitled to attend or vote at any meeting of the Company by reason only of it being the Bondholder.

Listing: No application will be made for a listing of the Convertible Bond on any stock or securities exchange. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Conversion Shares upon the exercise of the Conversion Rights.

INFORMATION ON THE SUBSCRIBER

The Subscriber, Sinopharm Capital Management Company Limited, is a limited liability company incorporated in the PRC, and is an equity investment company jointly established by 中國醫藥集團總公司 (China National Pharmaceutical Group Corporation*) (“CNPG”). CNPG is the largest medical and healthcare industrial platform in the PRC under the administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, and is also the only pharmaceutical industry group in the PRC which is listed in the Fortune 500. CNPG has over 10 subsidiaries as well as six listed companies, namely 國藥控股股份有限公司 (Sinopharm Group Co. Ltd.*) (HK: 1099), 國藥集團藥業股份有限公司 (China National Medicines Co., Ltd.*) (600511), 國藥集團一致藥業股份有限公司 (China National Accord Medicines Co., Ltd.*) (000028), 北京天壇生物製品股份有限公司 (Beijing Tiantan Biological Products Co., Ltd.*) (600161), 上海現代製藥股份有限公司 (Shanghai Modern Pharmaceutical Co., Ltd.*) (600420) and China Traditional Chinese Medicine Co. Limited (HK : 570). The Subscriber makes its investment layout in respect of the medical and healthcare industry in the PRC with investment covering the whole medical and healthcare industry such as the traditional Chinese medicine, medical equipment, chemical reagents, medical services, healthcare and pharmaceutical e-commerce. As an investment platform of CNPG, the Subscriber assists its investees in becoming a leading and excellent enterprise in the medical and healthcare industry in the PRC through providing various additional services and creating strong complementary effect among industrial resources.

REASONS FOR AND BENEFITS OF THE CONVERTIBLE BOND ISSUE AND USE OF PROCEEDS

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

The Directors consider that the issue of the Convertible Bond represents a good opportunity to strengthen the financial position of the Company so as to provide working capital for the business development of the Group. The Directors also consider the issue of the Convertible Bond will provide the Company with immediate funding without immediate dilution to the shareholding of the existing Shareholders and, if the Conversion Rights are exercised, the capital base of the Company will be enlarged.

LETTER FROM THE BOARD

The gross proceeds raised from subscription for the Convertible Bond will be HK\$133,837,500, which are currently intended to be used by the Company for its acquisition currently under negotiation and other investment opportunities in the future and as general working capital of the Company.

The proceeds to be raised from the issue of the Convertible Bond are intended to be applied in the following manner:

- (a) approximately 60%, or HK\$ 80,302,500, of the gross proceeds are expected to be used in the years of 2015 and 2016 for (i) potential acquisitions of enterprises in the pharmaceutical industry including without limitation upstream manufacturers and downstream retail chains; and (ii) if and to the extent that the existing available financial resources may be insufficient, as additional funding for the acquisition of 55% equity interest in 深圳市東迪欣科技有限公司 (Shenzhen Dong Di Xin Technology Company Limited*) (details of which may be referred to the announcements of the Company dated 8 May 2014, 31 July 2014 and 30 September 2014 respectively). Such expected allocation of the proceeds has been formulated after taking into consideration the current financial resources available to the Company, the Company's existing acquisition plans and progress, and the need to reserve certain degree of commercial flexibility. As such, the proportion and timing for applying the proceeds in such acquisitions will be adjusted depending on the actual progress of due diligence, negotiation and implementation processes;
- (b) approximately 30%, or HK\$ 40,151,250, of the gross proceeds will be used each year from 2014 to 2018 in accordance with the Company's yearly strategic plans for upgrading the specifications and outlook design of sales booths and counters for the Group's products, and gradually increasing the number of sales counters to reach 3300 by the end of 2018; and
- (c) approximately 10%, or HK\$ 13,383,750, of the gross proceeds will be used for general working capital of the Company from time to time according to the needs of the Company in its day-to-day business operations, such as to settle payments for goods supplied by pharmaceutical manufacturers and to pay for marketing and advertising costs.

The Directors (excluding Mr. Zhao and Ms. Chan who may have potential conflict of interest with respect to the Subscription Agreement as further disclosed in the section headed "EGM" in this letter, and the members of the Independent Board Committee whose views are set out in the Letter from the Independent Board Committee in this circular) consider that the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate and the indemnification arrangement as disclosed in the section headed "Indemnification" in this letter, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole and that the Subscription Agreement is entered into on normal commercial terms following arm's length negotiations between the Parties.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

To the best knowledge of the Directors, the shareholding structure of the Company as at the Latest Practicable Date and the changes thereto as a result of conversion in full of the Convertible Bond (assuming no other changes in the issued share capital of the Company) is as follows:

	Shareholding as at the Latest Practicable Date		Shareholding upon full conversion of the Convertible Bond	
	<i>Number of Shares</i>	<i>% (approx.)</i>	<i>Number of Shares</i>	<i>% (approx.)</i>
Mr. Zhao (<i>Note 1</i>)	456,108,000	73.27	456,108,000	66.61
Ms. Chan (<i>Note 2</i>)	456,108,000	73.27	456,108,000	66.61
Mr. Zhou Xuhua (<i>Note 3</i>)	3,800,000	0.61	3,800,000	0.55
The Subscriber or its Designated Party(ies) (<i>Note 4</i>)	0	0	62,250,000	9.09
Public Shareholders	162,592,000	26.12	162,592,000	23.75
Total:	622,500,000	100	684,750,000	100

Notes:

- Mr. Zhao, the chairman and an executive Director of the Company, is deemed (by virtue of the SFO) to be interested in 456,108,000 Shares. These Shares are held in the following capacities:

- 6,108,000 Shares are held by Mr. Zhao as beneficial owner.
- 360,000,000 Shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land.
- 90,000,000 Shares are held by Golden Morning. Ms. Chan, the spouse of Mr. Zhao, is the beneficial owner of the entire issued share capital of Golden Morning.

On 16 September 2014, Golden Land entered into a sale and purchase agreement with the Subscriber in respect of the Disposal. After the completion of the Disposal, Mr. Zhao will be deemed, under the SFO, to be interested in 393,920,250 Shares (representing approximately 63.28% of the existing issued share capital and approximately 57.53% of the enlarged issued share capital of the Company upon full conversion of the Convertible Bond, respectively).

- Ms. Chan, an executive Director of the Company, is deemed (by virtue of the SFO) to be interested in 456,108,000 Shares. These Shares are held in the following capacities:

- 90,000,000 Shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning.

LETTER FROM THE BOARD

- (b) 6,108,000 Shares are held by Mr. Zhao, the spouse of Ms. Chan, in his own name and 360,000,000 Shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land.
3. Mr. Zhou, an executive Director of the Company, is deemed (by virtue of the SFO) to be interested in 3,800,000 Shares held by his spouse, Huang Xiaoli.
4. After the completion of the Disposal, Sinopharm or its Designated Party(ies) will hold 62,187,750 Shares (representing approximately 9.99% of the existing issued share capital of the Company). Upon the full conversion of the Convertible Bond at the initial conversion price of HK\$2.15 and assuming no other changes in the issued share capital of the Company, Sinopharm or its Designated Party(ies) will hold 124,437,750 Shares (representing approximately 18.17% of the enlarged issued share capital of the Company).

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

There was no fund raising activities of the Company by way of issue of equity securities in the past 12 months immediately preceding the Latest Practicable Date.

EGM

The EGM will be convened and held for the Independent Shareholders to consider, and if thought fit, to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate.

As disclosed in the announcements of the Company dated 16 September 2014 and 7 November 2014 respectively, Golden Land, a company wholly-owned by Mr. Zhao, the Chairman and an executive Director of the Company, entered into a sale and purchase agreement dated 16 September 2014 (as amended and supplemented by a supplemental agreement dated 7 November 2014) with the Subscriber in respect of disposal of certain Shares held by Golden Land in the Company (the “Disposal”). To avoid any potential conflict of interest, the Company will follow the connected transaction requirements under the Listing Rules, and Mr. Zhao and his associates will abstain from voting at the EGM in respect of the resolutions approving the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate.

As at the Latest Practicable Date, Mr. Zhao and his associates (including Golden Land and Golden Morning) are aggregately interested in 456,108,000 Shares, representing approximately 73.27% of the total issued share capital of the Company. Furthermore, the Subscriber and/or its Designated Party(ies) and their respective associates shall also abstain from voting at the EGM in respect of the resolutions approving the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate. As at the Latest Practicable Date, none of the Subscriber and/or its Designated Party(ies) and their respective associates holds any Shares in the Company, whilst upon the completion of the Disposal, the Subscriber and/or its Designated Party(ies) will be interested in 62,187,750 Shares, representing approximately 9.99% of the total issued capital of the Company (assuming the Convertible Bond has not been converted and no other changes in the issued share capital of the Company); or 124,437,750 Shares, representing approximately 18.17% of the enlarged issued capital of the Company upon full conversion of the Convertible Bond (assuming full conversion of the Convertible Bond and no other changes in the issued share capital of the Company).

LETTER FROM THE BOARD

Save as disclosed above, no other Shareholder will be required to abstain from voting in respect of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate.

An Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, has been appointed by the Board to consider and advise the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate, whether the terms are in the interests of the Company and the Shareholders as a whole, after taking into account the recommendation of the Vinco Capital. In this connection, the Vinco Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard, and such appointment has been approved by the Independent Board Committee.

RECOMMENDATION

The Directors (excluding Mr. Zhao and Ms. Chan who may have potential conflict of interest with respect to the Subscription Agreement as further disclosed in the section headed “EGM” in this letter, and the members of the Independent Board Committee whose views are set out in the Letter from the Independent Board Committee in this circular) consider the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to approve the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate at the EGM.

Your attention is drawn to the advice of the Independent Board Committee set out in its letter on pages 21 to 22 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate.

Your attention is also drawn to the letter of advice from Vinco Capital, which is set out on pages 23 to 44 of this circular, to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate.

The Independent Board Committee, having taken into account of the advice of Vinco Capital, considered that the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to approve the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate at the EGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Kingworld Medicines Group Limited
Lin Yusheng
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

14 November 2014

To the Independent Shareholders

Dear Sir or Madam,

ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE

We refer to the circular issued by Kingworld Medicines Group Limited (the “**Company**”) to the shareholders of the Company dated 14 November 2014 (the “**Circular**”) of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings when used in this letter.

As stated in the letter from the Board in the Circular, it is a condition precedent to the completion of the Subscription Agreement and the transactions contemplated thereunder that the resolutions for approving the Subscription Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bond and the Conversion Shares) shall have been obtained from the Independent Shareholders by way of poll at the EGM.

We have been appointed by the Board as members of the Independent Board Committee, which has been established to consider the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate, and advise the Independent Shareholders whether, in our opinion, its terms are fair and reasonable so far as the Independent Shareholders are concerned. Vinco Capital has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from Vinco Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of Vinco Capital as set out in its letter of advice, we consider that the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole.

We also consider that the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate, are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate.

Yours faithfully,

Messrs. Duan Jidong, Zhang Jianbin, Wong Cheuk Lam
Independent Board Committee

LETTER FROM VINCO CAPITAL

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate which has been prepared for the purpose of incorporation in this circular:



Grand Vinco Capital Limited
Units 4909-4910, 49/F., The Center
99 Queen's Road Central, Hong Kong

14 November 2014

To the Independent Board Committee and the Independent Shareholders of
Kingworld Medicines Group Limited

Dear Sirs,

ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE

A. INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate, 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 14 November 2014 (the "**Circular**"), of which this letter forms a part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular, unless the context otherwise requires.

As disclosed in the Announcements, the Company and the Subscriber had entered into the Original Subscription Agreement on 15 September 2014 (which was further amended and supplemented by the Subscription Agreement on 9 October 2014). Pursuant to Subscription Agreement, the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bond in an aggregate principal amount of HK\$133,837,500 subject to the terms and conditions thereof.

Assuming the Conversion Rights attaching to the Convertible Bond are exercised in full at the Initial Conversion Price of HK\$2.15 per Conversion Share, the Convertible Bond will be converted into approximately 62,250,000 Shares, representing approximately 10.00% of the Company's existing issued share capital as at the Latest Practicable Date and approximately 9.09% of the issued share capital of the Company as enlarged by the full conversion of the Convertible Bond.

LETTER FROM VINCO CAPITAL

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, has been established to advise the Independent Shareholders on in respect of the fairness and reasonableness of the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate, whether the terms are in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the EGM.

We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and whether the Independent Shareholders should vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate.

As at the Latest Practicable Date, we were not aware of any relationships or interest between Vinco Capital and the Company or any other parties that could be reasonably be regarded as hindrance to Vinco Capital's independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations on the terms of the Subscription Agreement and the transactions contemplated thereunder. Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser to the Independent Board Committee and 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.

B. BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, 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 at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, 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, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. 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, management of the Company and its subsidiaries.

LETTER FROM VINCO CAPITAL

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 relied on such information and opinions and 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 prospect.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the issue of the Convertible Bond, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate and shall not be used for any other purpose in any circumstances or for any comparable purposes with any other opinions, without our prior written consent.

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate, we have considered the principal factors and reasons set out below:

Background of the Group

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

Set out below is the summary of the financial highlights for the two years ended 31 December 2013 and for the six months ended 30 June 2014 as extracted from the annual reports of the Company for the year ended 31 December 2012 and 31 December 2013 (the “**Annual Report 2013**”) and the interim report of the Company for the six months ended 30 June 2014 (the “**Interim Report 2014**”), respectively:

	6 months ended 30 June 2014 <i>(Unaudited)</i> <i>RMB'000</i>	Year ended 31 December 2013 <i>(Audited)</i> <i>RMB'000</i>	Year ended 31 December 2012 <i>(Audited)</i> <i>RMB'000</i>
Revenue	319,039	554,763	626,840
Profit before tax	23,552	63,214	61,191
Profit attribute to the Shareholders	19,475	47,177	48,535

LETTER FROM VINCO CAPITAL

	As at 30 June 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000	As at 31 December 2012 (Audited) RMB'000
Net assets value attributable to the Shareholders	459,132	457,424	422,830

For the six months ended 30 June 2014, the Group's revenue was amounted to approximately RMB319,039,000 and its profit attributable to the Shareholders was RMB19,475,000. The Group's net assets value attributable to the Shareholders was approximately RMB459,132,000 as at 30 June 2014. For the year ended 31 December 2013, the Group's revenue amounted to approximately RMB554,763,000, a decrease by approximately RMB72,077,000, or 11.50% when compared to approximately RMB626,840,000 for the year ended 31 December 2012. As stated in the Annual Report 2013, this decline was mainly due to the drop in sales of a product sold by the Group, namely Nin Jiom Chuan Bei Pei Pa Koa.

Besides, net profit for the year ended 31 December 2013 amounted to approximately RMB47,177,000, which decreased slightly by approximately RMB1,358,000 or 2.80% when compared to approximately RMB48,535,000 for the year ended 31 December 2012. According to the Annual Report 2013, such decrease was mainly due to the decrease in gross profit and increase in profit tax expenses, which was partly net-off by the increase in foreign exchange gain classified in other income. In addition, the net assets value of the Group attributable to the Shareholders was amounted to approximately RMB457,424,000 for the year ended 31 December 2013 as compared to approximately RMB422,830,000 as recorded in the previous year.

Background of and reasons for the Convertible Bond issue and use of proceeds

i. Information on the Subscriber

As stated in the Letter from the Board, the Subscriber, Sinopharm Capital Management Company Limited, is a limited liability company incorporated in the PRC and is an equity investment company jointly established by 中國醫藥集團總公司 (China National Pharmaceutical Group Corporation*) ("CNPG"). CNPG is the largest medical and healthcare industrial platform in the PRC under the administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, and is also the only pharmaceutical industry group in the PRC which is listed in the Fortune 500. CNPG has over 10 subsidiaries as well as six listed companies, namely 國藥控股股份有限公司 (Sinopharm Group Co. Ltd.*) (HK: 1099), 國藥集團藥業股份有限公司 (China National Medicines Co., Ltd.*) (600511), 國藥集團一致藥業股份有限公司 (China National Accord Medicines Co., Ltd.*) (000028), 北京天壇生物製品股份有限公司 (Beijing Tiantan Biological Products Co., Ltd.*) (600161), 上海現代製藥股份有限公司 (Shanghai Modern Pharmaceutical Co., Ltd.*) (600420) and China Traditional Chinese Medicine Co. Limited (HK: 570). The Subscriber makes its investment layout in respect of the medical and healthcare industry in the PRC with investment covering the whole medical and healthcare industry such as the traditional Chinese medicine, medical equipment,

LETTER FROM VINCO CAPITAL

chemical reagents, medical services, healthcare and pharmaceutical e-commerce. As an investment platform of CNPG, the Subscriber assists its investees in becoming a leading and excellent enterprise in the medical and healthcare industry in the PRC through providing various additional services and creating strong complementary effect among industrial resources.

ii. *Reasons for the issue of the Convertible Bond*

The PRC pharmaceutical market has been experiencing rapid growth since 2007. According to the graph compiled by Southern Medicine Economic Institute (“SMEI”), the pharmaceutical sales had grown at a rate of 25.9% from 2007 through 2010. SMEI expects the sales growth would continue to be strong yet more modest at a rate of 15.5% from 2010 to 2015. Esplcom also projects that the population of China will reach 1.36 billion by 2016. The trends as illustrated by the gauges, indicate that there is an increasing consumption in the medical and healthcare market and an increasing need of medical and healthcare services in China, especially from the aging population. In addition, the pharmaceutical distribution in China is highly fragmented and often criticized for its inefficiency and lack of transparency. In order to improve the overall operational capabilities and cost effectiveness of the industry, the PRC government has actively supported the consolidation of the national drug distribution industry since 2011. Taken into account of the above favourable factors, it would be beneficial for the Company to form strategic partnership with the Subscriber whom one of its subsidiaries, Sinopharm Group is one of the top pharmaceutical distributors in China and to tap into the downstream retail distribution market accordingly if favourable investment opportunities arise.

As discussed with the Directors, they consider that the issue of the Convertible Bond would allow the Company to implement its business development plan, including but not limited to potential acquisitions of enterprises in the pharmaceutical industry, such as upstream manufacturers and downstream retail chains and upgrading and increasing the number of sales booths and counters for the Group’s product. We are aware that the Directors have actively identified different investment opportunities in the pharmaceutical and healthcare market in the PRC. According to the Interim Report 2014, the Group has entered into a cooperation agreement with Shenzhen Dong Di Xin Technology Company Limited (“Dong Di Xin”); the Directors believe that there is an increasing need of wearable medical devices in the future and the flagship product of Dong Di Xin, a hand-held medical instrument would be benefited from this development trend.

Taken into consideration of the information provided by the Directors before us, we share the same view as the Directors that the cooperation agreement will expand the Group’s involvement in the market of manufacture and sale of medical devices and will diversify the Group’s revenue sources accordingly. We have discussed with the Directors and are advised that the Group has actively explored different possible opportunities to diversify and expand its business line, however, apart from entering into the cooperation agreement with Dong Di Xin, the Group is still in preliminary stage with other acquisitions or mergers opportunities. Taken into account of the aforementioned activity of the Group, we are of the view that the proposed issue of the Convertible Bond under the Specific Mandate provides an opportunity for the Group (i) to raise additional capital and may be used for potential acquisition or investment in a timely manner should an opportunity arise and (ii) to further strengthen its working capital position.

LETTER FROM VINCO CAPITAL

iii. *Use of proceeds*

As stated in the Letter from the Board, the gross proceeds raised from the issue of the Convertible Bond are approximately HK\$133,837,500. Firstly, the Directors intend to apply approximately 60%, or HK\$80,302,500 of the proceeds in funding its corporate development projects in the years of 2015 and 2016 for (i) potential acquisitions of enterprises in the pharmaceutical industry including but not limited to upstream manufacturers and downstream retail chains; and (ii) if and to the extent that the existing available financial resources may be insufficient, part of the funds would be applied to the acquisition under negotiation, namely the acquisition of 55% equity interest in Dong Di Xin (details of which may be referred to the announcements of the Company dated 8 May 2014, 31 July 2014 and 30 September 2014 respectively). Such expected allocation of the proceeds has been formulated after taking into consideration the current financial resources available to the Company, the Company's existing acquisition plans and progress, and the need to reserve certain degree of commercial flexibility. In respect of other potential acquisition opportunities in the future, the Company has not yet identified any specific target, and the proportion and timing for applying the proceeds in such acquisitions will be adjusted depending on the actual progress of due diligence, negotiation and implementation process. Secondly, the Directors also intend to apply approximately 30%, or HK\$40,151,250 of the gross proceeds will be used each year from 2014 to 2018 in accordance with the Company's yearly strategic plans for upgrading the specifications and outlook design of sales booths and counters for the Group's products. The Company targets the number of sales counters to reach 3300 by the end of 2018. Last but not least, the Company would set aside approximately 10%, HK\$13,383,750 of the gross proceeds for its general working capital from time to time according to the needs of the Company in its day-to-day business operations, such as to settle payments for goods supplied by pharmaceutical manufacturers, and to pay for marketing and advertising cost.

We have discussed with the Directors on the basis for the proposed use of proceeds. Regarding the Company's corporate development project, we have reviewed the financial positions of the Company according to its 2014 interim report and the latest cash position. For the strategic plans for upgrading the specifications and outlook design of sales booths and counters, we have discussed with the Directors and reviewed (i) the historical establishment expenses of the existing sales booths and counters; (ii) the estimated costs of new sales booths and counters to be established; and (iii) the details of the sales booth expansion projection prepared by the Company, including the time frame of execution, number of sales booths and counters and the target locations. We are of the view that the estimated cost and funding requirements by the Company in relation to the corporate development project and sales booth expansion plan are fair and reasonable. Based on the foregoing, we are of the view that the use of proceeds are in the interest of the Company and the Shareholders as a whole.

LETTER FROM VINCO CAPITAL

Terms of the Subscription Agreement

Principal terms of the Convertible Bond are summarized as follows:

Principal amount:	HK\$133,837,500
Interest Rate:	7.4% per annum of the outstanding principal amount of the Convertible Bond Interest shall be accrued daily on a 360 days basis and is payable by the Company to the Subscriber on bi-annual basis, with the first interest payment for the Convertible Bond to be made on the date falling on 6 months from the date of issue of the Convertible Bond and thereafter on the last day of each successive half-yearly period up to the Maturity Date.
Status of the Convertible Bond:	The Convertible Bond constitutes a direct, unconditional, unsecured and unsubordinated obligation of the Company and ranks <i>pari passu</i> and rateably without preference (with the exception of obligations in respect of taxes and certain other statutory exceptions) with all other unsecured and unsubordinated obligations of the Company.
Transfer of the Convertible Bond:	The Convertible Bond may be assigned or transferred in whole or in part of its outstanding principal amount. Such transfer or assignment shall be in compliance with the terms of the Convertible Bond. The permitted assignment or transfer of the Convertible Bond may only be made to person(s) who are not connected persons of the Company except in accordance with the Listing Rules.
Conversion Price:	The Initial Conversion Price of HK\$2.15 per Conversion Share, subject to adjustment events as set out in the Letter from the Board.
Adjustment to Conversion Price:	The Initial Conversion Price will be subject to adjustment in certain events, including: (a) an alternation of the nominal amount of the Shares by reasons of share consolidation or subdivision; (b) an issue by the Company of Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund); (c) a capital distribution made by the Company to the Shareholders (whether on a reduction of capital or otherwise) or a grant by the Company to the Shareholders of rights to acquire for cash assets of the Company or any of its subsidiaries;

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- (d) an offer by the Company to the Shareholders of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe for new Shares to the Shareholders at a price which is less than 80% of the market price at the date of the announcement of the terms of the offer or grant;
- (e) (i) an issue by the Company wholly for cash of any securities which by their terms are convertible into or exchange for or carry rights of subscription for new Shares, and the total effective consideration per Share initially receivable for such securities is less than 80% of the market price at the date of the announcement of the terms of issue of such securities; and (ii) any modification of the rights of conversion or exchange or subscription attached to any such securities as are mentioned in (i) above so that the total effective consideration per Share initially receivable for such securities shall be less than 80% of the market price at the date of announcement of the proposal for modification; and for the purposes of this sub-paragraph, the “total effective consideration” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the effective consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue;
- (f) an issue by the Company of any Share wholly for cash at a price per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue; and

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- (g) an issue by the Company of any Share for the acquisition of asset at a total effective consideration per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue; and for the purpose of this sub-paragraph, the “total effective consideration” shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “total effective consideration per Share” shall be the total effective consideration divided by the number of Shares issued as aforesaid.

Conversion:

Subject to, and upon compliance with, the provisions of the Conditions, the Subscriber shall have the right to convert the whole or any part of the outstanding principal amount of the Convertible Bond (irrespective whether the Convertible Bond may be held by more than one Subscriber) into Shares at any time and from time to time during the Conversion Period provided that each conversion must be in respect of a minimum aggregate principle amount of HK\$13,383,750. The price at which each Share shall be issued upon an exercise of the Conversion Rights shall be the Conversion Price in force at the relevant Conversion Date. Assuming full conversion of the Convertible Bond at the Initial Conversion Price, the Convertible Bond will be converted into approximately 62,250,000 Shares, representing approximately 10.00% of the existing issued share capital of the Company and approximately 9.09% of the issued share capital of the Company as enlarged by the full conversion of the Convertible Bond.

Pursuant to the Conditions, the Subscriber shall not have the right to convert the whole or part of the outstanding principal amount of the Convertible Bond into Shares to the extent that immediately after such conversion (a) the minimum public float requirement for the Shares as required under the Listing Rules could not be maintained; or (b) the Subscriber whether alone or together with parties acting in concert with it will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company as enlarged by such conversion (or in such other percentage lower than 30% as may from time to time be specified in the Codes on Takeovers and Mergers and Share Buy-backs being the level for triggering a mandatory general offer).

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Mandatory
Conversion:

The Bondholder shall mandatorily convert the whole of the principal moneys outstanding under the Convertible Bond into Conversion Shares on a date falling on or after the Mandatory Date (the “**Mandatory Conversion**”).

For the avoidance of doubt, no request for the repayment of any part of the principal moneys outstanding under the Convertible Bond can be made by the Bondholder to the Company unless there is any occurrence of Events of Default prior to the Maturity Date.

Events of Default:

If any of the following event or circumstances occurs prior to (but not after) the Maturity Date, the Subscriber may give notice to the Company that the Convertible Bond is, and it shall on the giving of such notice immediately become, due and payable at its principal amount and all other sums payable under the Convertible Bond (including any accrued but unpaid interests):

- (a) the Company fails to pay any amount due in respect of the Convertible Bond unless non-payment of such amount is due to administrative or technical error and payment is made within 5 Business Days of the due date thereof; or
- (b) the Company defaults in the performance or observance of or compliance with any of its other obligations set out under the Convertible Bond which default is incapable of remedy or, if capable of remedy, is not remedied within 20 Business Days after notice of the occurrence of such default by the Subscriber; or
- (c) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its major subsidiaries (and, where any such appointment is made in relation to a major subsidiary, the appointment is not discharged within 20 Business Days of it being made); or

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- (d) the Company or any of its major subsidiaries becomes insolvent or is unable to pay its debts as they fall due or applies for or consents to or suffers the appointment of any administrator, liquidator or receiver of the Company or any of its major subsidiaries or the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its major subsidiaries (and, where any such appointment is made in relation to a major subsidiary, the appointment is not discharged or withdrawn within 20 Business Days of it being made) or takes any proceeding under any law for a readjustment or deferment of its respective obligations or any part of them or makes or enters into a general assignment or compromise with or for the benefit of its respective creditors; or
- (e) a petition is presented or a proceeding is commenced or an order is made or an effective resolution is passed for the winding-up, insolvency, administration or dissolution of the Company or any of its major subsidiaries (and where any such petition, proceeding or order is presented, commenced or made in relation to a major subsidiary, such petition, proceeding or order is not set aside or withdrawn within 20 Business Days of it being filed, commenced or made), except in the case of winding-up of any subsidiaries of the Company in the course of internal reorganisation without involving insolvency; or
- (f) a moratorium is agreed or declared in respect of any indebtedness of the Company or any of its major subsidiaries (and, in the case of a major subsidiary, is not lifted within 20 Business Days of it being agreed or declared) or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets of the Company or any of its major subsidiaries.

Voting: The Subscriber shall not be entitled to attend or vote at any meeting of the Company by reason only of it being the Subscriber.

Listing: No application will be made for a listing of the Convertible Bond on any stock or securities exchange. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Conversion Shares upon the exercise of the Conversion Rights.

For further details of the major terms and conditions of the Convertible Bond, please refer to the Letter from the Board.

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(a) Review on historical price and trading liquidity of the Shares

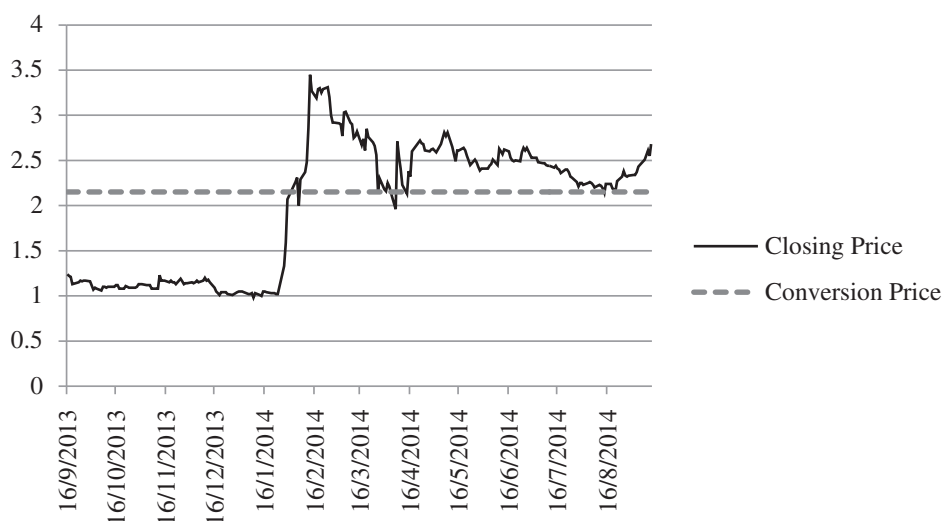
As stated in the Letter from the Board, the Conversion Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the prevailing market price of the Shares and the business performance of the Group under the prevailing market conditions.

The initial Conversion Price of HK\$2.15 per Conversion Share represents:

- (i) a discount of approximately 19.78% over the closing price of HK\$2.68 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 16.02% over the average of the closing prices of HK\$2.56 per Share as quoted on the Stock Exchange for the last five consecutive trading days of the Shares up to and including the Last Trading Day;
- (iii) a discount of approximately 12.60% over the average of the closing prices of HK\$2.46 per Share as quoted on the Stock Exchange for the last ten consecutive trading days of the Share up to and including the Last Trading Day;
- (iv) a discount of approximately 7.14% over the average of the closing prices of HK\$2.32 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days of the Share up to and including the Last Trading Day; and
- (v) a discount of approximately 1.83% to the closing price of HK\$2.19 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

To assess the fairness and reasonableness of the Conversion Price, we set out the following information analyses which include reviews on both the historical price and trading liquidity of the Shares. Set out below is a chart showing the daily closing price of the Shares as quoted on the Stock Exchange during the period from 16 September 2013, being the 12-month period to the Subscription Agreement, up to and including the Last Trading Day (the "**Review Period**"). The chart below illustrates the daily closing price versus the Conversion Price during the Review Period:

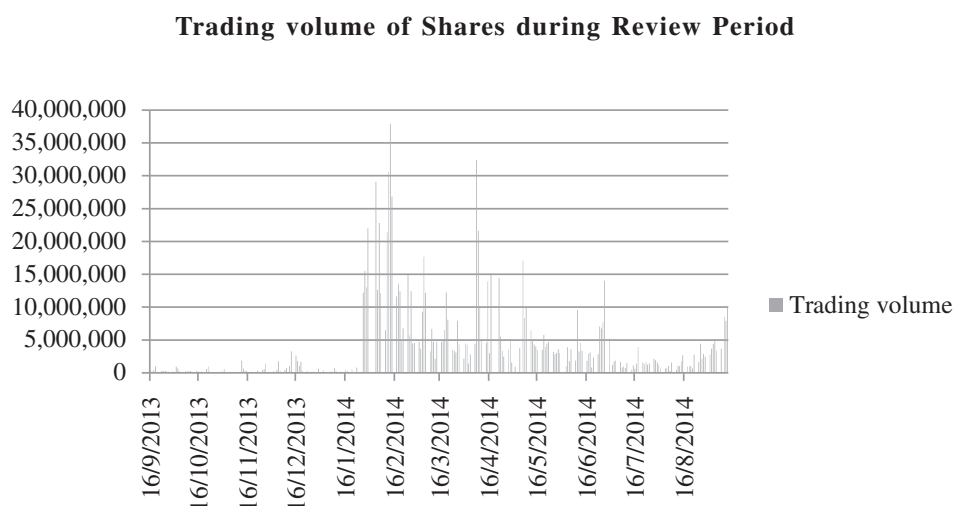
Closing price of Shares during the Review Period



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As illustrated in the chart above, the closing price of the Shares quoted on the Stock Exchange during the Review Period ranged from HK\$0.98 per Share on 9 January 2014 to HK\$3.45 per Share on 13 February 2014. We note that the Conversion Price has been generally lower than the historical closing price during the Review Period. Ever since 4 February 2014, the Shares have closed mostly above the Conversion Price HK\$2.15, except on 6 February 2014, 4 April 2014, 7 April 2014, 14 April 2014 and 14 August 2014, the Shares respectively closed below the Conversion Price HK\$2.15 on these trading days. The Conversion Price HK\$2.15 per Share represents a premium of approximately 8.04% over the average closing price of the Shares during the Review Period of approximately HK\$1.99 per Share quoted on the Stock Exchange.

Set out below is a chart showing the daily volume of the Shares as quoted on the Stock Exchange during the Review Period:



As illustrated in the chart above, the trading volume of the Shares was relatively thin during the period from 16 September 2013 to 24 January 2014, with average daily trading volume being approximately 422,899 shares, representing approximately 0.07% of the Company's issued share capital as at the Latest Practicable Date. Ever since 27 January 2014, the trading volume has significantly increased, the average daily trading volume from 27 January 2014 to 12 September 2014 was amounted to approximately 6,057,038 Shares, representing approximately 0.97% of the Company's issued share capital as at the Latest Practicable Date; the average daily trading volume during the Review Period was about 4,010,351 Shares, representing approximately 0.64% of the Company's issued share capital as at the Latest Practicable Date. Hence, the average daily trading volume over the Company's issued share capital is relatively small. Albeit there has been a rising interest from investors since February 2014, the ratio of trading volume during the review period over the issued share capital may serve as an implication that there is a lack of interest from potential investors to invest in the Shares. As such, it might be difficult for the Company to pursue other financing alternatives, such as placement of new Shares, in the market to raise additional fund for the Company.

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(b) Comparable analysis

To assess the fairness and reasonableness of the terms of the Subscription Agreement, in particular the Conversion Price, annual interest rate and maturity period, we, have identified an exhaustive list of 22 recent relevant transactions (the “**Comparables**”) of the companies listed on the Main Board and Growth Enterprise Market of the Stock Exchange announced between 1 June 2014 and the Last Trading Day. As the capital market changes rapidly, we consider that the Comparables represent recent cases which serve as an indication of the recent market conditions as well as market sentiment at the time of proposing the terms of the Convertible Bond. As such we believe that the Comparables are fair and indicative in reflecting the current market conditions. Shareholders should note that the business nature, operations and prospects of the Group are not the same as the Comparables and thus the Comparables shall only be used as a general reference of the common market practice in recent placing or issue of convertible Bond or notes by listed companies in Hong Kong.

Date of announcement	Stock code	Company	Principal amount of the convertible bonds	Conversion price	Maturity (year(s))	Interest	Premium/ (discount) of conversion price over/to share price as at the last trading day prior to release of the announcement	Premium/ (discount) of conversion price over/to 5 day average share price prior to the release of the announcement
13/06/2014	8080	North Asia Strategic Holdings Limited	HK\$60,000,000	HK\$0.25	3	0.00%	0.00%	(1.20%)
17/06/2014	509	Century Sunshine Group Holdings Limited	HK\$115,000,000	HK\$1.2	1	4.50%	22.45%	21.46%
18/06/2014	1699	China Putian Food Holdings Limited	HK\$200,000,000	HK\$1.30	3	9.50%	(8.45%)	(7.93%)
23/06/2014	509	Century Sunshine Group Holdings Limited	HK\$180,000,000	HK\$1.2	2	4.50%	18.81%	21.95%
24/06/2014	39	Sino Distillery Group Limited	HK\$89,600,000	HK\$0.70	1.5	8.00%	(9.09%)	(6.42%)
25/06/2014	3669	China Yongda Automobiles Services Holdings Limited	HK\$1,266,000,000	HK\$7.958	5	1.50%	15.33%	14.67%
26/06/2014	260	China Environmental Investment Holdings Limited	HK\$175,000,000	HK\$0.2	2	2.00%	1.52%	22.70%
27/06/2014	8021	WLS Holdings Limited	HK\$30,000,000	HK\$0.10	1	10.00%	25.00%	21.07%
04/07/2014	8132	China Oil Gangran Energy Group Holdings Limited	HK\$62,000,000	HK\$0.24	1.5	12.50%	91.00%	91.00%
07/07/2014	1233	Times Property Holdings Limited	HK\$388,000,000	HK\$3.50	4.5	8.00%	12.90%	10.90%
08/07/2014	326	China Star Entertainment Limited	HK\$405,000,000	HK\$0.09	10	0.00%	(28.00%)	(24.87%)
16/07/2014	750	China Singyes Solar Technologies Holdings Limited	HK\$1,177,380,000	HK\$16.11	5	5.00%	32.50%	30.89%
17/07/2014	1073	China Agrotech Holdings Limited	HK\$109,000,000	HK\$0.22	5	18.00%	6.80%	8.37%
18/07/2014	381	Kiu Hung Energy Holdings Limited	HK\$112,000,000	HK\$0.40	3	0.00%	12.68%	12.68%
23/07/2014	8256	Netel Technology (Holdings) Limited	HK\$2,500,000	HK\$0.12	2	7.00%	1.22%	0.24%
28/07/2014	176	United Pacific Industries Limited	HK\$77,000,000	HK\$0.47	2	0.00%	(17.29%)	(19.00%)
29/07/2014	1380	China Kingstone Mining Holdings Limited	HK\$78,750,000	HK\$0.27	5	0.00%	(8.47%)	(4.93%)

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Date of announcement	Stock code	Company	Principal amount of the convertible bonds	Conversion price	Maturity (year(s))	Interest	Premium/ (discount) of conversion price over/to share price as at the last trading day prior to release of the announcement	Premium/ (discount) of conversion price over/to 5 day average share price prior to the release of the announcement
31/07/2014	2309	Birmingham International Holdings Limited	HK\$120,000,000	HK\$0.10	2	7.50%	(7.41%)	(17.63%)
07/08/2014	198	SMI Corporation Limited	HK\$200,000,000	HK\$0.34	3	9.00%	7.94%	11.11%
14/08/2014	827	Ko Yo Chemical (Group) Limited	HK\$832,000,000	HK\$0.32	10	7.00%	(41.80%)	(28.30%)
22/08/2014	1004	Rising Development Holdings Limited	HK\$700,000,000	HK\$3.39	1.96	3 months HIBOR + 5.5%	(19.09%)	(19.90%)
28/08/2014	269	China Resources and Transportation Group Limited	HK\$600,000,000	HK\$0.40	3	9.00%	21.21%	24.61%
		Maximum	HK\$1,266,000,000	HK\$16	10	18.00%	91.00%	91.00%
		Minimum	HK\$2,500,000	HK\$0.09	1	0.00%	(41.80%)	(28.30%)
		Mean	HK\$403,642,000	HK\$1.69	3	5.86%	5.90%	7.34%
		The Company	HK\$133,837,500	HK\$2.15	1.5	7.40%	(19.78%)	(16.02%)

(i) *Conversion Price*

As shown in the above table, the conversion prices of the Comparables ranged from a discount of approximately 41.80% to a premium of approximately 91.00% to/over the respective closing prices of their respective share on the respective last trading day and from a discount of approximately 28.30% to a premium of approximately 91.00% to/over respective average closing price per share quoted on the Stock Exchange for the last five consecutive trading days of the Shares up to and including the Last Trading Day. The Conversion Price of HK\$2.15 per Conversion Share represents a discount of approximately 19.78% and 16.02% to the Closing Price of HK\$2.68 per Share and HK\$2.56 per Shares quoted on the Stock Exchange on the Last Trading Day and the last five consecutive trading days of the Shares up to and including the Last Trading Day. The Conversion Price is being offered to the Subscriber at a higher discount when compared to the average of the Comparables, but it falls within the range of the Comparables. In addition, we have also compared the Conversion Price with the conversion prices of the two comparable transactions that have also incorporated the mandatory conversion in their respective subscription agreements, namely Times Property Holdings Limited (the “**Times Property**”) and China Resources and Transportation Group Limited (the “**China Resources and Transportation**”). The conversion prices under the subscription agreements of Times Property and China Resources and Transportation are set at HK\$3.50 and HK\$0.40, representing a discount of approximately 12.90% and 21.21% to their share prices as at the last trading day prior to the date of announcement; a discount of approximately 10.90% and 24.61% to their 5 day average share prices prior to the release of the announcement, whereas the Convertible Price is priced at a discount that is within the range of Times Property and China Resources and Transportation.

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After our discussion with the Directors, we have identified several advantages and disadvantages of the incorporation of the Mandatory Conversion into the Subscription Agreement. We concur with the Directors that the Subscription Agreement would assist the Company in becoming a leading and excellent enterprise in the pharmaceutical and healthcare industry in the PRC through providing various additional services and creating strong complementary effect among industrial resources with the Subscriber, Sinopharm Capital Management Company Limited, as discussed above, an equity investment company, whom major shareholder, CNPG, a dynamic investor in the PRC medical and healthcare industry has an investment portfolio including but not limited to traditional Chinese medicine, medical equipment, chemical reagents, medical services, healthcare and pharmaceutical e-commerce. We are also of the view that the Subscription Agreement would have potential profound effects on the Group's financial positions as it would generate subsequent cash inflows upon the Subscriber exercises its conversion obligation, would save the Company from repaying any of the loan principals raised from the Convertible Bond given the presence of the Mandatory Conversion and would increase the Company's asset base, either in cash or new assets. However, we are also aware that the Subscription Agreement would have potential disadvantages. The Company would incur a 7.40% Convertible Bond interest payable on a bi-annually basis in the coming one and a half year and there would be a 2.38% dilution on the shareholdings of public shareholders upon the Subscriber fully converts its outstanding balance into Conversion Shares. Having taken into account of the aforesaid advantages and disadvantages, we are of the view that the return to the Company and the Shareholders as a whole brought by the Subscriber in the long term would be greater than the 2.38% dilution on the shareholding of public Shareholders. Hence it is fair and reasonable to price the Conversion Price at a higher discount than those without the provision of mandatory conversion as it was determined by the parties to the Subscription Agreement after arm's length negotiations in light of the recent market prices, performances of the Shares, the current market conditions and the business prospects of the Group. Details of the term of the Mandatory Conversion are discussed in the subsection (iv) "Mandatory Conversion" below.

(ii) *Interest rate*

To assess the fairness and reasonableness of the interest rate, we have compared the interest rate payable under the Subscription Agreement with the interest rate charged by the Comparables and with the interest rate of the two comparable transactions that have incorporated the term of mandatory conversion in their subscription agreements, Times Property and China Resources and Transportation.

As shown in the above table, the interest rates charged by the Comparables ranged from 0.00% to 18.00% per annum with an average of approximately 5.86% per annum and the interest rate charged by two comparable transactions that have incorporated the term of mandatory conversion ranged from 8.00% to 9.00% per annum with an average of 8.5% per annum.

The interest of the Convertible Bond is at 7.40% per annum, being higher than the average figures of the Comparables but falls within the range of the Comparables' interest rates. We note that (1) the interest rate under the terms of the Subscription Agreement was determined after arm's length negotiations between the Company and the Subscribers with reference to the prevailing market rate; and (2) the repayment of interest payment is payable on bi-annual basis in the coming one and a half year. However, the provision of Mandatory Conversion under the terms of Subscription Agreement has given the Group certainty on its future financial position as the Subscriber must convert the whole of

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the principal moneys outstanding under the Convertible Bond into Conversion Shares on a date falling on or after the Maturity Date and it must convert a minimum aggregate principle amount of HK\$13,383,750 in case the Subscriber wishes to convert part of the outstanding principle amount of the Convertible Bond, we are of the view that such provision does come with a higher price as the average interest rate charged under the two comparable transactions is about 8.5% per annum and ranged from 8.00% to 9.00%. As a result, it is not unreasonable to set the interest rate under the Subscription Agreement higher than the Comparables' average interest rate given most of them have not incorporated such provision in their respective subscription agreements. Based on the foregoing, we are of the view that the interest rate of the Convertible Bond represents a reasonable cost of capital for the Company.

(iii) *Maturity*

When compared to the maturity of the Comparables, the maturity of the Convertible Bond is within the range of the Comparables, which ranges from 1 to 10 years. The Convertible Bond shall mature within 1.5 years commencing from the date of issue of the Convertible Bond and its maturity is 3 year lower than the average of the maturity of the Comparables. Hence, the issuance shall not generate any long term financial burden on the Company's financial position.

(iv) *Mandatory Conversion*

Under the Subscription Agreement, the Subscriber shall mandatorily convert the whole of the principal moneys outstanding under the Convertible Bond into Conversion Shares on a date falling on or after the Maturity Date (the "**Mandatory Conversion**"). In the event of rights and benefits of Convertible Bond being transferred to other Designated Party(ies), the Designated Party(ties) shall assume and perform all the obligations and liabilities originally assumed by the Subscriber under the Subscription Agreement, including exercising the obligation under Mandatory Conversion. Albeit the fulfillment of the Mandatory Conversion would dilute the shareholdings of the existing Shareholders, we are of the opinion that such arrangement would ensure certainty and continuity for the Group to maintain sufficient funds for its corporate development activities. In addition, we have reviewed the terms of relevant subscription agreements of the Comparables with our best efforts and endeavors to assess (i) whether the Mandatory Conversion is a common practice and (ii) whether the incorporation of such provision in the Subscription Agreement is fair and reasonable and in the interests of the Shareholders and the Company as a whole. After our due study and consideration, we have only identified two comparable transactions: Times Property and China Resources and Transportation. We have reviewed all publicly available resources that are relevant to the two comparable transactions, including but not limited to the announcements of subscription agreement, annual reports, and interim reports of the respective issuers before we give our conclusion on the fairness of the Mandatory Conversion. In fact, the mandatory conversion terms under the two comparable transactions require the subscribers to mandatorily convert the all or the remaining part of the convertible bonds upon certain activities materialise prior to the maturity date. Under the terms of subscription agreement announced by China Resources and Transportation, the subscriber must convert all of any part of the convertible bond due in 2017 if, at any time prior to the maturity date, the current market price of the Shares is more than HK\$1.00 for 60 consecutive trading days. On the other hand, Times Property may at its sole discretion elect for the mandatory conversion of the convertible bonds outstanding at any time after the third anniversary of its closing date, if the value of the convertible bond is at least equal

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to or greater than the amount which would yield an internal rate of return of 18% or higher for at least 15 successive trading days immediately before the relevant mandatory conversion determination date. In contrast to two comparable transactions, the term of the Mandatory Conversion is rather straight forward and restrictive in a sense that it requires the Subscriber to mandatorily convert the whole of the principal moneys outstanding under the Convertible Bond into Conversion Shares on a date falling on or after the Maturity Date without being contingent of any occurrence of certain events. Having compared the respective Mandatory Conversion term with the respective term of the two comparable transactions, we are of the view that although the Mandatory Conversion is not contingent on any occurrence of certain events like the two comparable transactions, the purpose of the incorporation of the Mandatory Conversion is similar to the purpose of the two comparable transactions in a sense that the provision of such term would give the issuers a certain degree of financial stability and not subject to any massive amount of cash outflow for redemption when the bonds mature. Therefore, the provision of mandatory conversion is not uncommon and is normal commercial term. Taken into account of the Mandatory Conversion together with its discount rate and interest rate mentioned above, we are of the view that the inclusion of Mandatory Conversion is being fair and reasonable, and so far as the Independent Shareholders might concern.

(v) *Other terms of the Convertible Bond*

We have also reviewed the other terms of the Convertible Bond and are not aware of any terms which are uncommon. However, as discussed above, after taking into consideration that (i) the Group is keen to apply the proceeds to strengthen its general working capital position and for possible investment opportunities should they arise; (ii) the Conversion Price, interest rate and the maturity as stipulated in the Convertible Bond are within the range of the Comparables; and (iii) the Mandatory Conversion would provide certainty and continuity for the Group to maintain sufficient funds for its corporate development activities. Accordingly, we are of the opinion that the terms of the Convertible Bond are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(vi) *Conclusion*

Based on the foregoing, we are of the view that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Financing alternatives available to the Group

As advised by the Directors, apart from the issue of the Convertible Bond, the Directors have also considered other means of financing to raise additional capital for the Group. As confirmed by the Directors, negotiations of loan facilities with the banks are usually lengthy and are subject to complex due diligence processes. Normally, the application of corporate loans in the PRC requires a long list of corporate documents including but not limited to the business license which has passed annual review, audited financial statements of last 3 years and certificate of loan. In case of pledged loans, the loan applicant is required to produce an appraisal report, ownership certificate of the

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pledged assets and the pledge contracts. Besides, the duration from making the application till the grant of loan is rather uncertain and lengthy, we note that the Company applied banking facilities in May 2014, and has yet to receive any feedback from the Industrial Bank as at the Latest Practicable Date.

For the year ended December 2013, the Company's gearing ratio was amounted to 13.5% as compared to 9.4% for the year ended December 2012, the total indebtedness of the Company increased from approximately RMB59,880,000 for the year ended December 2012 to approximately RMB98,378,000 for the year ended December 2013 and the pledged investment property, bank deposits and bills receivable to the bank was amounted to approximately RMB116,047,000 as at 31 December 2013 which compared to approximately RMB95,842,000 in the corresponding period in 2012. We have reviewed the general banking facilities and loan facilities (the "Combined Facilities") granted to the Company by Industrial Bank, which include loan facilities for trading activities and general working capital. Pursuant to terms of the Combined Facilities, the Company is only allowed to utilise the loan facilities designated for general working capital to finance its corporate development project whereas the loan facilities designated for trading activities is restricted to trading. However, the principal terms of such loan facilities designated for general working capital is rewarded on a yearly basis with a 7.20% interest rate and can only be obtained by pledging the Company's asset to the bank. As a result, it would not be practicable for the Company to obtain banking facilities through the continuation of pledging its assets to fund its corporate development projects given that the amount of different investment opportunities vary and the Company may not have sufficient assets available to pledge in case an acquisition that involved massive amount of moneys.

In light of the above, the Directors consider bank borrowings to be relatively uncertain, impracticable and time-consuming as compared to other financing alternatives. As for the other forms of equity financing such as placing, rights issue or open offer, most would incur substantial costs in form of placing commission or underwriting commission. Furthermore, the Directors consider that the Company may encounter difficulties in procuring commercial underwriting as a result of the recent global financial turmoil. Therefore, the Directors believe that the issue of the Convertible Bond offers the best balance in terms of financing flexibility and relatively lower recurring interest expense. As a result, we concur with the Directors' view that the issue of the Convertible Bond is a feasible, cost and time effective fund raising alternative currently available to the Company and is in the interest of the Company and the Shareholders as a whole.

Potential financial effects of the issue of the Convertible Bond

a. *Net assets*

Based on the Annual Report 2013, the audited consolidated assets of the Group were approximately RMB457,424,000 (equivalent to approximately HK\$579,199,147) as at 31 December 2013. As advised by the Directors, the Subscription will constitute (i) an increase in cash, by the amount of the net proceeds of the Subscription; (ii) an increase in non-current liabilities (liability component of the Convertible Bond); and (iii) an increase in convertible bond equity reserve (equity component of the Convertible Bond) of the Group. In the event that the Subscribers exercise the Conversion Rights of the Convertible Bond, the net assets of the Group will increase.

LETTER FROM VINCO CAPITAL

b. *Liquidity and working capital position*

Based on the Annual Report 2013, the Group had cash and cash equivalents of approximately RMB91,416,000 (equivalent to approximately HK\$115,752,714) as at 31 December 2013. As advised by the Directors, immediately upon completion of the issue of the Convertible Bond, the Company will raise net proceeds of and the cash would be increased by approximately HK\$133,000,000. Accordingly, the liquidity and working capital position of the Group will be improved upon completion of the issue of the Convertible Bond.

c. *Earnings*

As advised by the Directors, the liability portion of the Convertible Bond will be carried at amortized cost using the effective interest method in subsequent periods. The effective interest expenses of the Convertible Bond will be charged to the consolidated statement of profit or loss subsequent to completion of issue of Convertible Bond and until the conversion of the Convertible Bond in full.

Albeit the carrying interest of the Convertible Bond may create negative impact on the future earning of the Group in the next 18 months commencing from the date of issue of the Convertible Bond, the issue of the Convertible Bond is necessary in a sense that it will allow the Group to maintain sufficient funds for its corporate development activities.

It should be noted that the aforementioned analyses are only for illustrative purpose and do not purport to represent how the financial position of the Group will be upon completion of issue of Convertible Bond.

d. *Conclusion*

In view of the foregoing, we are of the view that the issue of the Convertible Bond will not have any material adverse impact on the Group's financial position.

LETTER FROM VINCO CAPITAL

Potential dilution to shareholding of the Shareholders

The table below illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon Completion and assuming full conversion of the Convertible Bond (assuming no other changes in issued share capital of the Company) is as follow:

	Shareholding as at the Latest Practicable Date		Shareholding upon full conversion of the Convertible Bond	
	Number of Shares	% (approx.)	Number of Shares	% (approx.)
Mr. Zhao (<i>Note 1</i>)	456,108,000	73.27	456,108,000	66.61
Ms. Chan (<i>Note 2</i>)	456,108,000	73.27	456,108,000	66.61
Mr. Zhou Xuhua (<i>Note 3</i>)	3,800,000	0.61	3,800,000	0.55
The Subscriber or its Designated Party(ies)				
(<i>Note 4</i>)	0	0.00	62,250,000	9.09
Public Shareholders	<u>162,592,000</u>	<u>26.12</u>	<u>162,592,000</u>	<u>23.74</u>
Total:	<u>622,500,000</u>	<u>100.00</u>	<u>684,750,000</u>	<u>100.00</u>

Notes:

- Mr. Zhao, the chairman and an executive Director of the Company, is deemed (by virtue of the SFO) to be interested in 456,108,000 Shares. These Shares are held in the following capacities:

- 6,108,000 Shares are held by Mr. Zhao as beneficial owner.
- 360,000,000 Shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land.
- 90,000,000 Shares are held by Golden Morning. Ms. Chan, the spouse of Mr. Zhao, is the beneficial owner of the entire share capital of Golden Morning.

On 16 September 2014, Golden Land entered into a sale and purchase agreement with the Subscriber in respect of the Disposal. After the completion of the Disposal, Mr. Zhao will be deemed, under the SFO, to be interested in 393,920,250 Shares (representing existing issued share capital and approximately 57.33% of the enlarged issued share capital of the Company upon full conversion of the Convertible Bond, respectively).

- Ms. Chan, an executive Director of the Company, is deemed (by virtue of the SFO) to be interested in 456,108,000 Shares. These Shares are held in the following capacities:

- 90,000,000 Shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning.
- 6,108,000 Shares are held by Mr. Zhao, the spouse of Ms. Chan, in his own name and 360,000,000 Shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire share capital of Golden Land.

LETTER FROM VINCO CAPITAL

3. Mr. Zhou, an executive Director of the Company, is deemed (by virtue of the SFO) to be interested in 3,800,000 Shares held by his spouse, Huang Xiaoli.
4. After the completion of the Disposal, Sinopharm or its Designated Party(ies) will hold 62,187,750 Shares (representing approximately 9.99% of the existing issued share capital of the Company). Upon the full conversion of the Convertible Bond at the initial conversion price of HK\$2.15 and assuming no other changes in the issued share capital of the Company, Sinopharm or its Designated Party(ies) will hold 124,437,750 Shares (representing approximately 18.17% of the enlarged issued share capital of the Company).

Upon Completion and assuming full conversion of the Convertible Bond, a total of 62,250,000 Conversion Shares shall be issued, representing approximately 10% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 9.09% of the issued share capital of the Company as enlarged by the full conversion of the Convertible Bond.

From the table above, we noted that the shareholding interests of the public Shareholders would be diluted from approximately 26.12% to approximately 23.74% of the enlarged issued share capital of the Company following the issue of the Convertible Bond. We note that the purpose of the issue of Convertible Bond is to improve the Group's general working capital position as well as maintaining sufficient funds to react promptly when favourable acquisition opportunities arise. Taken into account of (i) the issue of the Convertible Bond is more favorable as compared to other financing alternatives; (ii) the fact that the issue of the Convertible Bond would not result in immediate dilution effect on shareholdings; (iii) the issue of the Convertible Bond will enable the Group to strengthen its financial position and provide the Group the flexibility to make prompt decision should an investment opportunities arises and (iv) the terms of the Subscription Agreement are in line with the Comparables, we are of the view that the possible dilution to the existing public Shareholders as a result of the issue of the Convertible Bond is justifiable.

CONCLUSION

Having taken into the principal factors and reasons as the abovementioned, we are of the view that the Subscription Agreement and the transaction contemplated thereunder, including the grant of the Specific Mandate is in the ordinary and usual course of business of the Company and is in the interest of the Company and the Shareholders as a whole. We also consider the terms of the Subscription Agreement and the transaction contemplated thereunder, including the grant of the Specific Mandate are in normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise (i) the Independent Shareholders and (ii) the Independent Board Committee to recommend the Independent Shareholders to vote in favour of relevant resolution in approving the Subscription Agreement and the transaction contemplated thereunder, including the grant of the Specific Mandate at the EGM.

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

Note: Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Grand Vinco Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Nature of Interest	Number of Shares	Total interests as to % of the issued share capital of the Company as at the Latest Practicable Date
Mr. Zhao	Beneficial owner, interest of a controlled corporation, interest of spouse	456,108,000	73.27
Ms. Chan	Interest of a controlled corporation, interest of spouse	456,108,000	73.27
Zhou Xuhua	Interest of spouse	3,800,000	0.61

Notes:

- Mr. Zhao is the beneficial owner of 6,108,000 Shares. He is also deemed (by virtue of the SFO) to be interested in 450,000,000 Shares. These Shares are held in the following capacities:

- 360,000,000 Shares are held by Golden Land, which is wholly owned by Mr. Zhao.
- 90,000,000 Shares are indirectly held by Ms. Chan, wife of Mr. Zhao, through Golden Morning, which is wholly owned by Ms. Chan.

On 16 September 2014, Golden Land entered into a sale and purchase agreement with the Subscriber in respect of the Disposal. After the completion of the Disposal, Mr. Zhao will be deemed, under the SFO, to be interested in 393,920,250 Shares (representing approximately 63.28% of the existing issued share capital and approximately 57.53% of the enlarged issued share capital of the Company upon full conversion of the Convertible Bond, respectively).

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 456,108,000 Shares. These Shares are held in the following capacities:
 - (a) 6,108,000 Shares are directly held by Mr. Zhao, husband of Ms. Chan.
 - (b) 360,000,000 Shares are indirectly held by Mr. Zhao, through Golden Land, which is wholly owned by Mr. Zhao.
 - (c) 90,000,000 Shares are held by Golden Morning, which is wholly owned by Ms. Chan.
3. Zhou Xuhua is deemed (by virtue of the SFO) to be interested in 3,800,000 Shares, which are held by his spouse, Huang Xiao Li.
4. After the completion of the Disposal, Sinopharm or its Designated Party(ies) will hold 62,187,750 Shares (representing approximately 9.99% of the existing issued share capital of the Company). Upon the full conversion of the Convertible Bond at the initial conversion price of HK\$2.15 and assuming no other changes in the issued share capital of the Company, Sinopharm or its Designated Party(ies) will hold 124,437,750 Shares (representing approximately 18.17% of the enlarged issued share capital of the Company).

Long position in the shares and underlying shares of the associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Total interests as to % of the issued share capital of the associated corporation as at the Latest Practicable Date
Mr. Zhao	Golden Land	Beneficial owner	100
Ms. Chan	Golden Morning	Beneficial owner	100

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, Mr. Zhao is the sole director of Golden Land and Ms. Chan is the sole director of Golden Morning. Each of Golden Land and Golden Morning was a company having, as at the Latest Practicable Date, an interest or short position in the Company's shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTEREST IN COMPETING BUSINESS, CONTRACTS AND ASSETS**(a) Interests in competing business**

As at the Latest Practicable Date, the Directors were not aware that any of the Directors and their respective associates had interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

(b) Interests in assets

As at the Latest Practicable Date, save as the following leases, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2013 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group:

- (a) by SZ Kingworld from SZ Industry, an indirect wholly-owned subsidiary of Kingkok Investment Holdings Limited (金國投資控股有限公司), which is held as to 80% by Mr. Zhao and 20% by Ms. Chan, in respect of:
 - (i) the external wall on 4/F of the west side of Jin Shi Jie Business Center, Dongmen, Shenzhen (深圳東門金世界商業中心西面四樓外牆), with a site area of approximately 27 sq.m., for advertising purpose, for a term commencing from 1 January 2014 to 31 December 2014 at a monthly rental of RMB12,500;
 - (ii) Room 201, Building 331, Lian Tang Gang Lian Er Cun, Shenzhen (深圳市蓮塘港蓮二村331棟201室), with a site area of approximately 78 sq.m., as accommodation for senior executives, for a term commencing from 1 July 2014 to 30 June 2015 at a monthly rental of RMB1,172.1;
 - (iii) Rooms 1001-1008, Block A and Room 1505, Block C, Tian An International Building, Shenzhen (深圳市天安國際大廈A座1001-1008室及C座1505室), with a total site area of approximately 935 sq.m., for office use, for a term commencing from 1 July 2014 to 30 June 2015 at a total monthly rental of RMB45,776.5; and
 - (iv) Residential Unit, Room 602, Unit 1, Shen Hua Apartment House, Mei Hua Road, Shenzhen (深圳市梅華路深華公寓1單元602室住宅用房), with a site area of approximately 46.54 sq.m., for staff dormitory, for a term commencing from 1 April 2014 to 30 June 2015 at a monthly rental of RMB1,800.

- (b) by SZ Kingworld from Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳金活利生藥業有限公司), a direct wholly-owned subsidiary of Morning Gold Medicine Company Limited (金辰醫藥有限公司), which is held as to 51% by Mr. Zhao and 49% by Ms. Chan, in respect of:

Type C5, San Lian He Sheng Industrial Zone, Buji, Longgang District, Shenzhen (深圳市龍崗區布吉三聯和生工業區C5型), with a site area of 1,218.75 sq.m. in aggregate, for warehouse purpose, for a term commencing from 1 September 2014 to 16 December 2014 at a monthly rental of RMB30,468.75.

(c) **Interests in contract or arrangement**

Save as the following continuing connected transactions as disclosed in the circular of the Company dated 7 December 2012, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, subsisting at the Latest Practicable Date, which is significant in relation to the business of the Group:

- (a) the master distribution agreement dated 16 November 2012 (the “**Yuen Tai Master Distribution Agreement**”) entered into between the Company and Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) (“**Yuen Tai**”), pursuant to which members of the Group will purchase pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of three years with effect from 1 January 2013 and ending on 31 December 2015 (both days inclusive); the terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group. The annual caps under the Yuen Tai Master Distribution Agreement for the years ended or ending 31 December 2013, 2014 and 2015 respectively were RMB17,390,000, RMB25,220,000 and RMB33,520,000 respectively; and
- (b) the master distribution agreement dated 16 November 2012 (the “**SZ Kingworld Lifeshine Master Distribution Agreement**”) entered into between the Company and 深圳金活利生藥業有限公司 (Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited*) (“**SZ Kingworld Lifeshine**”), pursuant to which members of the Group will purchase pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC; the terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group. The annual caps under the SZ Kingworld Lifeshine Master Distribution Agreement for the years ended or ending 31 December 2013, 2014 and 2015 respectively were RMB56,440,000, RMB67,730,000 and RMB81,270,000 respectively.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Group which is not expiring or determinable by such member of the Group within one year without payment of any compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, the date on which the latest published audited accounts of the Group were made up.

6. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualifications of the expert who has given an opinion or advice contained in this circular:

Name	Qualification
Vinco Capital	a corporation licensed to carry out business in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Vinco Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter as set out in this circular and references to its name in the form and context in which it appear in this circular.

As at the Latest Practicable Date, Vinco Capital did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Vinco Capital did not have any direct or indirect interest in any assets which since 31 December 2013, being the date to which the latest published audited accounts of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Subscription Agreement, the Yuen Tai Master Distribution Agreement, the SZ Kingworld Lifeshine Master Distribution Agreement and the leases referred to in the section headed "3. DIRECTORS' INTEREST IN COMPETING BUSINESS, CONTRACTS AND ASSETS — (b) Interests in assets" in this Appendix will be available for inspection at the Company's principal place of business in Hong Kong, which is Units 1906-1907, 19th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, during normal business hours from 9:00 a.m. to 5:00 p.m. for a period of 14 days (other than Saturdays, Sundays, and public holidays) from the date of this circular.



KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01110)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the an extraordinary general meeting (the “**EGM**”) of Kingworld Medicines Group Limited (the “**Company**”) will be held at 10:00 a.m. on Saturday, 29 November 2014 (and any adjournment thereof), at 3rd Floor, Crowne Plaza Hotel & Suites Landmark Shenzhen, No. 3018 Nanhu Road, Luohu District, Shenzhen, the PRC, for the purpose of considering and, if thought fit, passing with or without modifications the following resolution as ordinary resolution of the Company. Capitalised terms used herein without definition shall have the same meanings as in the circular issued by the Company on 14 November 2014 (the “**Circular**”), unless the context otherwise requires:

ORDINARY RESOLUTION**“THAT:**

- (a) the Subscription Agreement entered into between the Company and the Subscriber pursuant to which Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bond in an aggregate principal amount of HK\$133,837,500 subject to the terms and conditions thereof, be and is hereby approved, confirmed and ratified, and all the transactions contemplated under the Subscription Agreement be and are hereby approved, confirmed and ratified and that the Board be and is hereby authorised to make changes or amendments to the Subscription Agreement as it may in its absolute discretion think fit, a copy of which is produced to the meeting marked “A” and initialled by the Chairman of the EGM for the purpose of identification;
- (b) the Board be and is hereby granted a specific mandate for the allotment and issue of the Convertible Bond to the Subscriber or its Designated Party(ies) and the Conversion Shares to the Subscriber or its Designated Party(ies) or other Bondholder upon an exercise of the Conversion Rights; and
- (c) any director of the Company be and is hereby authorised to do such acts and things, to sign and execute all such further documents (and in case of execution of documents under seal, to do so by any two directors of the Company or any two persons appointed by the board of directors of the Company for that purpose) and to take such steps as he/she may consider necessary,

appropriate, desirable or expedient to give effect to or in connection with the Subscription Agreement and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”

By order of the board of
Kingworld Medicines Group Limited
Lin Yusheng
Executive Director

Notes:

1. As disclosed in the Circular, to avoid any potential conflict of interest, Mr. Zhao and his associates will abstain from voting at the EGM in respect of the resolutions approving the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate. Furthermore, the Subscriber and/or its Designated Party(ies) and their respective associates shall also abstain from voting at the EGM in respect of the resolutions approving the Subscription Agreement and the transactions contemplated thereunder, including the grant of the Specific Mandate. Save as disclosed above, no other Shareholder will be required to abstain from voting in respect of these resolutions.
2. A shareholder entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company but must be present in person to represent him.
3. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of the Company’s branch share registrar in Hong Kong, Tricor Investors Services Limited (“**Branch Registrar**”), at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof.
4. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the EGM or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. In the case of joint registered holders of a share in the Company, any one of such joint holders may vote, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
6. The register of members of the Company will be closed from Thursday, 27 November 2014 to Saturday, 29 November 2014 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the EGM, all share transfer documents must be lodged with the Branch Registrar at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Wednesday, 26 November 2014.