

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



同方康泰產業集團有限公司
Tongfang Kontafarma Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
DISPOSAL OF 55.43% EQUITY INTEREST IN
THE TARGET COMPANY
AND
(2) CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
MASTER TENANCY AGREEMENT**

(1) THE EQUITY TRANSFER AGREEMENT

On 6 April 2022 (after trading hours), Tongfang Pharmaceutical, a wholly-owned subsidiary of the Company (as the vendor), Shenzhen Warranty, a controlling shareholder of the Company (as the purchaser) and the Target Company entered into the Equity Transfer Agreement, pursuant to which Tongfang Pharmaceutical has conditionally agreed to sell, and Shenzhen Warranty has conditionally agreed to purchase the Sale Share, representing 55.43% equity interest in the Target Company, at the consideration of RMB159,675,300 (subject to interest). Upon completion of the Transaction, the Company will cease to hold any interests in the Target Company, and the financial results of the Target Group will cease to be consolidated into the financial statements of the Group.

Listing Rules Implications of the Transaction

As the highest applicable percentage ratio in respect of the Transaction is more than 25% but less than 100%, the Transaction constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Shenzhen Waranty is the indirect holding company of China Health, which in turn holds approximately 56.77% of the issued share capital of the Company. Therefore, Shenzhen Waranty is a connected person of the Company and the Transaction constitutes a connected transaction of the Company and is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

General

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement and the Transaction. China Health (directly holding approximately 56.77% of the issued share capital of the Company as at the date of this announcement) shall abstain from voting on the resolution approving the Equity Transfer Agreement and the Transaction at the EGM. Save as aforementioned, to the best knowledge, information and belief of the Directors having made all reasonable enquiry, no other Shareholder has any material interest in the Transaction and would be required to abstain from voting at the EGM.

The Company has established the Independent Board Committee comprising all three independent non-executive Directors to consider the terms of the Equity Transfer Agreement and the Transaction, and to advise the Independent Shareholders as to whether the terms of the Equity Transfer Agreement and the Transaction are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, after taking into account the advice from the Independent Financial Adviser.

Amasse Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to the foregoing matters.

A circular containing, among other things, (i) further information on the Equity Transfer Agreement and the Transaction; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice in connection with the aforesaid; and (iv) the notice convening the EGM together with the proxy form, is currently expected to be despatched to the Shareholders on or before 20 May 2022, so as to allow sufficient time for the Company to prepare the required financial information and other relevant information for inclusion in the Circular.

As the completion of the Transaction is subject to the fulfilment of the condition precedent in the Equity Transfer Agreement, the Transaction may or may not be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.

(2) THE MASTER TENANCY AGREEMENT

On 6 April 2022, Tongfang Pharmaceutical (as the landlord) and the Target Company (as the tenant) entered into the Master Tenancy Agreement, pursuant to which Tongfang Pharmaceutical agreed to lease certain factories and warehouses in Yanqing District, Beijing, the PRC, covering a gross floor area of approximately 14,080 square metres to the Target Company for a term commencing from the Completion Date and ending on 31 December 2024 (both days inclusive).

Listing Rules Implications of the Master Tenancy Agreement

Upon the completion of the Transaction, the Target Company will become a subsidiary of Shenzhen Warranty, which is in turn a controlling shareholder of the Company. Accordingly, the Target Company will be an associate of Shenzhen Warranty and thus a connected person of the Company and the transactions contemplated under the Master Tenancy Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio calculated based on the highest annual cap under the Master Tenancy Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Master Tenancy Agreement are subject to reporting, announcement and annual review requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

(1) THE EQUITY TRANSFER AGREEMENT

On 6 April 2022 (after trading hours), Tongfang Pharmaceutical, a wholly-owned subsidiary of the Company (as the vendor), Shenzhen Warranty, a controlling shareholder of the Company (as the purchaser) and the Target Company entered into the Equity Transfer Agreement in respect of the Transaction.

The principal terms of the Equity Transfer Agreement are set out below:

Date

6 April 2022

Parties

- (i) Tongfang Pharmaceutical, as the vendor;
- (ii) Shenzhen Warranty, as the purchaser; and
- (iii) the Target Company.

Subject Matter

Under the Equity Transfer Agreement, Tongfang Pharmaceutical has conditionally agreed to sell, and Shenzhen Waranty has conditionally agreed to purchase the Sale Share, representing 55.43% equity interest in the Target Company held by Tongfang Pharmaceutical for consideration of RMB159,675,300 (subject to interest). As at the date of this announcement, SPF Suzhou is a direct wholly-owned subsidiary of the Target Company. For more information on the Target Group, please refer to the section headed “Information of the Target Group”.

Consideration

The consideration shall be paid by Shenzhen Waranty in the following manner:

- (1) 40% of the consideration (i.e. RMB63,870,120) shall be paid by Shenzhen Waranty within 5 working days of the Effective Date (the “**Initial Consideration**”). In particular, an earnest money in the amount of RMB2,000,000 paid by Shenzhen Waranty shall form part of the Initial Consideration;
- (2) 60% of the consideration (i.e. RMB95,805,180) shall be settled within 5 working days of the Completion Date (the “**Remaining Consideration**”); and
- (3) Shenzhen Waranty shall also pay the interest for the Remaining Consideration for the period from the sixth working day from the Effective Date up to the day immediately before Tongfang Pharmaceutical actually receives the Remaining Consideration at the one-year loan prime rate implemented on the sixth working day from the Effective Date.

The consideration payable by Shenzhen Waranty was arrived at by a tender process conducted by the Group in relation to the disposal of the Sale Share where Shenzhen Waranty’s bidding price was the highest among the tenders received through the tendering process. For details of the tender process, please refer to the paragraph headed “Reasons for the Transaction” below.

Condition Precedent

Completion of the Transaction shall be conditional upon the Independent Shareholders having approved the Equity Transfer Agreement and the Transaction.

Completion

Completion shall take place on the Completion Date. Shenzhen Warranty shall complete the required procedures for the transfer of the Sale Share with the industry and commerce administration authority with the cooperation from Tongfang Pharmaceutical within 20 working days after the Initial Consideration has been paid.

Information of the Group, Tongfang Pharmaceutical and Shenzhen Warranty

The Company is an investment holding company and the Group is currently principally engaged in (i) the manufacturing and sales of prescription drugs, including chemical drugs and prescribed traditional Chinese medicines, and laboratory related products in the PRC; and (ii) operating fitness centres and providing consultation services for fitness and health activities, and operating franchise business for royalty fee income.

Tongfang Pharmaceutical is a company established in the PRC with limited liability, which is a wholly-owned subsidiary of the Company. Tongfang Pharmaceutical is principally engaged in the production and sales of chemical generic medicines in the PRC.

Shenzhen Warranty is a company established in the PRC with limited liability, which is (through China Health) the indirect controlling shareholder of the Company. Shenzhen Warranty is principally engaged in asset management and investment consultancy in the PRC.

Information of the Target Group

The Target Group consists of the Target Company and its subsidiary, namely, SPF Suzhou. Both the Target Company and SPF Suzhou are companies established in the PRC with limited liability. The Target Group is principally engaged in the sales of laboratory related products.

Set out below are certain consolidated financial information of the Target Group prepared under accounting principles generally accepted in the PRC:

	For the year ended 31 December 2020 (audited) <i>Approximately (RMB'000)</i>	For the year ended 31 December 2021 (audited) <i>Approximately (RMB'000)</i>
Revenue	87,931	131,434
Net profit before taxation	11,079	34,348
Net profit after taxation	9,119	30,966

Based on the audited consolidated financial information of the Target Group, the total assets value and net assets value of the Target Group were approximately RMB154,498,000 and RMB104,105,000 respectively as at 31 December 2021.

Financial Effects of the Transaction

Upon completion of the Transaction, the Group will cease to have any interests in the Target Company, and the financial results of the Target Group thereafter will no longer be consolidated in the financial statements of the Group.

After taking into account the consideration for the Transaction of RMB159,675,300, the carrying value of the disposed net assets attributable to the Group as at 28 February 2022 and the related transaction costs, the Group expects to record an estimated gain on disposal of subsidiaries of approximately RMB47,482,000 as a result of the Transaction at the completion. The actual gain as a result of the Transaction to be recorded by the Group is subject to audit to be performed by the auditor of the Company upon completion.

Reasons for the Transaction

The Target Group is principally engaged in the sales of laboratory related products. Considering the financial performance of the Target Group, after reviewing its business and operation status and the current situation of the industry which it operates, the Company believes that the Transaction represents a good opportunity to realize its investment in the Target Group and to streamline its business operations. In particular, the Transaction aligns with the Group's current plan to deploy its resources in a more optimal way by concentrating the resources on driving the growth of pharmaceutical business of the Group, more specifically, in principal activities of manufacturing and sales of chemical drugs, active pharmaceutical ingredients and intermediates and Chinese medicines. The net proceeds from the consideration to be received by the Group under the Transaction is expected to be used for the Group to continue focusing on the pharmaceutical business sector, including but not limited to investing in the construction of the new production base for Chinese medicines in Shaanxi Province, the PRC, for Tongfang Pharmaceutical to conduct new research and development of the products, expanding new cooperation projects and as general working capital of the Group. Accordingly, the Transaction will enable the Group to increase its working capital and strengthen the overall financial position of the Group as well as accelerate the development of its pharmaceutical business.

The Transaction was awarded to Shenzhen Waranty through a tendering process. The Group has engaged a brokerage agency, being an Independent Third Party, to look for interested and qualified potential purchasers for the Sale Share on the market. Tenders were received from four bidders including Shenzhen Waranty and three other bidders, who are Independent Third Parties. The final purchaser was determined after evaluation by a committee comprising of four independent professional personnel and one representative from the Target Company with reference to various factors including, among other things, the proposed consideration, commercial terms, corporate capabilities of the potential purchasers and credits and qualifications of the relevant bidders. In particular, Shenzhen Waranty was rated first among the bidders under the tendering process, having taken into consideration that, among other things, (i) the bidding price submitted by Shenzhen Waranty was the highest among the tenders received by the Group for the disposal of the Sale Share; (ii) the satisfying credibility and financial position of Shenzhen Waranty; and (iii) Shenzhen Waranty has an outstanding management in corporate investment.

In light of the above, the Board (excluding the independent non-executive Directors, whose views will be given after considering the advice from the Independent Financial Adviser) considers that the terms of the Equity Transfer Agreement are fair and reasonable and on normal commercial terms and the entering into of the Equity Transfer Agreement is in the interests of the Company and Shareholders as a whole and would benefit the Group's long-term business development in pharmaceutical segment.

Mr. Chai Hongjie, being a Director and a director of Shenzhen Waranty and Mr. Jiang Chaowen, being a Director, the director of the Target Company and a shareholder holding 5.47% equity interest in the Target Company, are considered to have a material interest in the Transaction and therefore have abstained from voting on the Board resolutions of the Company for approving the Equity Transfer Agreement and the Transaction. Save as disclosed above, no Director abstained from voting in respect of the Board resolutions approving the aforesaid.

Listing Rules Implications of the Transaction

As the highest applicable percentage ratio in respect of the Transaction is more than 25% but less than 100%, the Transaction constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Shenzhen Waranty is the indirect holding company of China Health, which in turn holds approximately 56.77% of the issued share capital of the Company. Therefore, Shenzhen Waranty is a connected person of the Company and the Transaction constitutes a connected transaction of the Company and is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

General

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement and the Transaction. China Health (directly holding 56.77% of the issued share capital of the Company as at the date of this announcement) shall abstain from voting on the resolution approving the Equity Transfer Agreement and the Transaction at the EGM. Save as aforementioned, to the best knowledge, information and belief of the Directors having made all reasonable enquiry, no other Shareholder has any material interest in the Transaction and would be required to abstain from voting at the EGM.

The Company has established the Independent Board Committee comprising all three independent non-executive Directors to consider the terms of the Equity Transfer Agreement and the Transaction, and to advise the Independent Shareholders as to whether the terms of the Equity Transfer Agreement and Transaction are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, after taking into account the advice from the Independent Financial Adviser.

Amasse Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to the foregoing matters.

A circular containing, among other things, (i) further information on the Equity Transfer Agreement and the Transaction; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice in connection with the aforesaid; and (iv) the notice convening the EGM together with the proxy form, is currently expected to be despatched to the Shareholders on or before 20 May 2022, so as to allow sufficient time for the Company to prepare the required financial information and other relevant information for inclusion in the Circular.

As the completion of the Transaction is subject to the fulfilment of the condition precedent in the Equity Transfer Agreement, the Transaction may or may not be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.

(2) THE MASTER TENANCY AGREEMENT

On 6 April 2022, Tongfang Pharmaceutical (as the landlord) and the Target Company (as the tenant) entered into the Master Tenancy Agreement, pursuant to which Tongfang Pharmaceutical agreed to lease certain factories and warehouses in Yanqing District, Beijing, the PRC, covering a gross floor area of approximately 14,080 square metres to the Target Company for a term commencing from the Completion Date and ending on 31 December 2024 (both days inclusive). The principal terms of the Master Tenancy Agreement are set out below:

- Date:** 6 April 2022
- Parties:** (1) Tongfang Pharmaceutical; and
(2) the Target Company.
- Location:** Badaling Economic and Technological Development Zone, Yanqing District, Beijing, the PRC* (中國北京市延慶區八達嶺經濟技術開發區)
- Term:** Effective from the Completion Date to 31 December 2024 (both days inclusive) renewable upon mutual consent between the parties
- Use:** For breeding of laboratory animals
- Individual Agreement:** During the term of the Master Tenancy Agreement, Tongfang Pharmaceutical (as the landlord) and the Target Company (as the tenant) may from time to time enter into individual tenancy agreements in relation to the lease of particular properties in accordance with the provisions of the Master Tenancy Agreement.
- Rental:** The price for the leasing of the factories or warehouses shall be at the market rate for such premises. The Target Company shall be responsible for paying the charges for utilities (i.e. the transmission of water, electricity and telecommunications, etc.) at the leased premises.

Annual caps and basis of determination: The aggregate amount payable to Tongfang Pharmaceutical pursuant to the Master Tenancy Agreement shall not exceed the following annual cap amounts:

- RMB3,500,000 for the financial year ending 31 December 2022;
- RMB3,600,000 for the financial year ending 31 December 2023; and
- RMB3,700,000 for the financial year ending 31 December 2024.

The annual caps have been determined with reference to: (i) expected rentals under the relevant lease agreements with reference to the prevailing market price of comparable properties in Yanqing District, Beijing, the PRC; (ii) various conditions of the properties, including but not limited to the location of the premises as well as the facilities associated with the premises; and (iii) the estimated increases in expenses in maintaining the properties as a result of inflation and an increase in the value of properties.

Reasons for Entering Into the Master Tenancy Agreement

The Target Company has been leasing the properties from Tongfang Pharmaceutical and paying the rentals to Tongfang Pharmaceutical over the years as intra-group transactions. The Board considers it to be in the interests of the Company and the Shareholders as a whole for the Group to continue such leasing arrangement after the completion of the Transaction for recurring rental income payable to the Group.

The terms of the Master Tenancy Agreement (including the rental) were arrived at after arm's length negotiations between the Group and the Target Company. The Directors (including the independent non-executive Directors) consider that the Master Tenancy Agreement is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As Mr. Jiang Chaowen, being a Director, is also the director of the Target Company and a shareholder holding 5.47% equity interest in the Target Company, he is considered to have a material interest in the Master Tenancy Agreement and transactions contemplated thereunder and has abstained from voting on the Board resolutions of the Company for approving the aforesaid. Save for Mr. Jiang Chaowen, none of the Directors is required to abstain from voting in respect of the relevant Board resolutions.

Listing Rules Implications of the Master Tenancy Agreement

Upon the completion of the Transaction, the Target Company will become a subsidiary of Shenzhen Warranty, which is in turn a controlling shareholder of the Company. Accordingly, the Target Company will be an associate of Shenzhen Warranty and thus a connected person of the Company and the transactions contemplated under the Master Tenancy Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio calculated based on the highest annual cap under the Master Tenancy Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Master Tenancy Agreement are subject to reporting, announcement and annual review requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

DEFINITIONS

Unless otherwise defined, the following expressions in this announcement have the following meanings:

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“China Health”	China Health Management Investment Limited, a company incorporated in the British Virgin Islands with limited liability, which holds approximately 56.77% shareholding of the Company as at the date of this announcement
“Company”	Tongfang Kontafarma Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1312)
“Completion Date”	the date on which the registration of changes with the industry and commerce administration authority in relation to the Sale Share of the Target Company is completed
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

“Effective Date”	the date on which the Equity Transfer Agreement and the Transaction have been approved by the Independent Shareholders at the EGM in compliance with the Listing Rules
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Equity Transfer Agreement and the Transaction
“Equity Transfer Agreement”	the equity transfer agreement dated 6 April 2022 entered into between Tongfang Pharmaceutical (as the vendor), Shenzhen Warranty (as the purchaser) and the Target Company in respect of the Transaction
“Group”	the Company and its subsidiaries, and where the context required, excluding the Target Group after the completion of the Transaction
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the Board comprising Mr. Chan Sze Chung, Mr. Zhang Ruibin and Mr. Zhang Junxi Jack, being all three independent non-executive Directors, which is formed to advise the Independent Shareholders on the Equity Transfer Agreement and the Transaction
“Independent Financial Adviser”	Amasse Capital Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Equity Transfer Agreement and the Transaction
“Independent Shareholders”	Shareholders who are not interested or involved in the Equity Transfer Agreement and the Transaction
“Independent Third Party(ies)”	a party who is not a connected person of the Company and is independent of and not connected with the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Master Tenancy Agreement”	the master tenancy agreement dated 6 April 2022 entered into between Tongfang Pharmaceutical (as the landlord) and the Target Company (as the tenant) in respect of the lease of certain factories and warehouses for a term commencing from the Completion Date and ending on 31 December 2024 (both days inclusive)
“percentage ratio(s)”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Share”	55.43% equity interest in the Target Company
“Share(s)”	ordinary share(s) of HK\$0.002 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Shenzhen Waranty”	Shenzhen Waranty Asset Management Co., Ltd.* (深圳市華融泰資產管理有限公司), a limited company established in the PRC and the indirect holding company of China Health
“SPF Suzhou”	SPF (Suzhou) Biotechnology Co., Ltd.* (斯貝福(蘇州)生物技術有限公司), a limited company established in the PRC and a direct wholly-owned subsidiary of the Target Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	SPF (Beijing) Biotechnology Co., Ltd.* (斯貝福(北京)生物技術有限公司), a limited company established in the PRC and a direct non-wholly owned subsidiary of Tongfang Pharmaceutical as at the date of this announcement
“Target Group”	collectively the Target Company and SPF Suzhou
“Tongfang Pharmaceutical”	Tongfang Pharmaceutical Group Co., Ltd.* (同方藥業集團有限公司), a limited company established in the PRC and an indirect wholly-owned subsidiary of the Company

“Transaction”	the transaction contemplated under the Equity Transfer Agreement
“working day(s)”	the PRC statutory working days other than Saturday, Sunday and statutory holidays
“%”	per cent.

By order of the Board of
Tongfang Kontafarma Holdings Limited
Chai Hongjie
Chairman

Hong Kong, 6 April 2022

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Chai Hongjie (Chairman), Mr. Bai Pingyan, Mr. Huang Yu (President) and Mr. Jiang Chaowen (Chief Executive Officer) and three independent non-executive directors, namely Mr. Chan Sze Chung, Mr. Zhang Ruibin and Mr. Zhang Junxi Jack.

* *For identification purposes only*