

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.



Sinopharm Tech Holdings Limited

國藥科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8156)

PROFIT GUARANTEE IN RELATION TO THE ACQUISITION OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

Reference is made to the announcements of the Company dated 4 January 2019 and 6 May 2019 (the “**Announcements**”) and the circular of the Company dated 2 April 2019 (the “**Circular**”). Capitalised terms used herein shall have the same meanings as those defined in the Announcements and the Circular unless the context requires otherwise.

BACKGROUND

As set out in the Announcements and the Circular, the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into the Sale and Purchase Agreement pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares, which represents 100% of the equity interest in the Target Company. The consideration of the Sale Shares is HK\$139.10 million, which will be settled by the allotment and issue of 650,000,000 Consideration Shares by the Company to the Vendor under the specific mandate at the issue price of HK\$0.214 per Consideration Share. The Completion took place on 6 May 2019.

Pursuant to the Sales and Purchase Agreement, the Consideration Shares, upon the allotment and issue, will be subject to lock-up arrangement and held by the Purchaser in accordance with the terms and conditions of the Sale and Purchase Agreement. The Consideration Shares shall be released from the lock-up arrangement upon satisfaction of the Guaranteed Profit by the Target Company. For the avoidance of doubt, the lock-up period of the Consideration Shares shall not be less than three years since the allotment and issue thereof.

In the event that the aggregate Net Profit does not meet the Guaranteed Profit (as defined below), the Consideration Shares will be released from the lock-up arrangement only after the cash compensation is made by the Vendor to the Purchaser in accordance with the Sale and Purchase Agreement. In the event that the Vendor fails to compensate the Purchaser in accordance with the Sale and Purchase Agreement, the Purchaser shall have the right to sell the locked-up Consideration Shares in return for such compensation amount in cash. There was no such option to dispose of the Sale Shares to the Vendor in accordance with the Sale and Purchase Agreement.

NON-FULFILLMENT OF THE PROFIT GUARANTEE

Pursuant to the Sale and Purchase Agreement, the Vendor warranted to the Purchaser that (i) the actual net profit after taxation of the Target Company (the “**Net Profit**”) for each of the three years ended 31 December 2019, 2020 and 2021 shall not be less than HK\$23,000,000, HK\$23,000,000 and HK\$23,000,000, respectively; or (ii) the aggregate Net Profit for the three years ended 31 December 2019, 2020 and 2021 shall not be less than HK\$69,000,000 in total (the “**Guaranteed Profit**”). If the aggregate Net Profit for the three years ended 31 December 2019, 2020 and 2021 was less than the Guaranteed Profit, the Vendor shall compensate the Purchaser the shortfall multiplied by a compensation factor of 1.7 in cash. The Vendor shall settle the compensation amount, if any, within 30 business days following the issue of written confirmation in respect of the shortfall by the Purchaser on or before 30 June 2022.

Based on the unaudited management accounts of the Target Company prepared in accordance with Hong Kong Financial Reporting Standards, the Target Company recorded net profit after taxation of approximately HK\$10.5 million and HK\$5.9 million for the two years ended 31 December 2019 and 2020 respectively, and net loss after taxation of approximately HK\$2.0 million for the year ended 31 December 2021. The aggregate Net Profit for the three years ended 31 December 2019, 2020 and 2021 was approximately HK\$14.4 million and hence the Guaranteed Profit could not be fulfilled. Accordingly, the compensation of approximately HK\$92.8 million (the “**Compensation**”), being the shortfall of the Guaranteed Profit of approximately HK\$54.6 million multiplied by a compensation factor of 1.7, shall be payable by the Vendor within 30 business days following the issue of written confirmation in respect of the shortfall by the Purchaser on 23 May 2022.

The Target Group has been engaged in (i) provision of business management and consulting services (with respect to Internet Plus, blockchain, big data and database management, etc.), overseas sourcing, online trade, technology development for e-commerce platforms (including payment, membership management and precision marketing), technical services; and (ii) provision of internet plus supply chain services. The revenue of the Target Company has been decreasing during the three years ended 31 December 2021 because certain online platform supply chain business contracts have not been renewed and provision of business management and consulting services to Sino-TCM was suspended due to the outbreak of the COVID-19 pandemic in the PRC, leading to the non-fulfilment of the Guaranteed Profit.

As at 23 May 2022, the Vendor has not fulfilled its obligations in relation to the Guaranteed Profit of the Sale and Purchase Agreement. On 23 May 2022, the Purchaser and the Vendor signed a confirmation letter and mutually agreed on the amount of the Compensation of approximately HK\$92.8 million and entered into a settlement agreement in relation to the settlement arrangement of the Compensation (the “**Settlement Agreement**”).

SETTLEMENT AGREEMENT

The principal terms of the Settlement Agreement are set out as follows:

Date: 23 May 2022 (after trading hours of the Stock Exchange)

Parties: the Purchaser; and
the Vendor.

Settlement period

The Compensation is approximately HK\$92.8 million, which shall be paid by the Vendor to the Purchaser in the following manner:

The Compensation will be settled by 24 instalments, which will be payable on the 15th and the last day of each month commencing on 15 July 2022 and ending on 30 June 2023. The minimum payment amount of each instalment is HK\$3,869,028. If the Vendor fails to pay the minimum compensation amount in any one of instalments, the Purchaser has the right to request settlement of the remaining amount of the Compensation from the Vendor immediately.

Lock-up of the Consideration Shares

Pursuant to the Sales and Purchase Agreement, if the aggregate Net Profit does not meet the Guaranteed Profit, the Consideration Shares will be released from the lock-up arrangement only after the cash Compensation is made by the Vendor to the Purchaser. Therefore, the Consideration Shares will be released from the lock-up arrangement only after the Compensation is fully settled by the Vendor to the Purchaser through 24 instalments on or before 30 June 2023.

REASONS FOR AND BENEFITS OF THE SETTLEMENT AGREEMENT

In view of the reasons that the non-fulfillment of Guaranteed Profit were mainly attributable to the extraordinary and unexpected circumstances caused by the COVID-19 pandemic and were beyond the control of the Vendor, the Purchaser and the Vendor agreed to extend the settlement period of Compensation up to 30 June 2023 through 24 installments.

Given that the outbreak of the COVID-19 pandemic in the PRC and prolonged preventive measures imposed by the PRC government, the Settlement Agreement allows the Vendor to settle the Compensation by instalment and provide certain flexibility for the Vendor to arrange sufficient funding for full settlement of the Compensation. Pursuant to the Settlement Agreement, the Purchaser will receive approximately HK\$7.7 million each month from the Vendor and the Compensation will be fully settled within 12 months on or before 30 June 2023. The Company intends to apply the Compensation for general working capital purpose. The Directors are of the view that the Compensation will strengthen the Group's cash position and liquidity.

As disclosed in the annual report of the Company for the year ended 30 June 2021, apart from operating the lottery-related services business and Internet plus services business (including the business of the Target Company), the Group also devoted its resources to develop a new business segment on the manufacturing and distribution of personal protective equipment. Although the Target Company was unable to achieve the Guaranteed Profit, the Group's principal businesses have not been adversely affected and the management of the Company has been reviewing the Group's business structure from time to time to minimize the negative impact on revenue due to the COVID-19 pandemic and reasonably allocating resources to maximize profitability and exploring business opportunities amidst the difficulties.

The Directors are of the opinion that the Vendor has not fulfilled its obligations in relation the Guaranteed Profit of the Sale and Purchase Agreement. In light of the above, the Directors consider that the terms of the Settlement Agreement are fair and reasonable, the transaction contemplated thereunder is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

By order of the Board
Sinopharm Tech Holdings Limited
國藥科技股份有限公司
CHAN Ting
Chairperson

Hong Kong, 23 May 2022

As at the date of this announcement, the Board comprises Mr. CHAN Ting, Mr. LIAO Zhe and Mr. CHEUK Ka Chun Kevin as executive Directors, Madam CHEUNG Kwai Lan and Dr. CHENG Yanjie as non-executive Directors and Mr. LAU Fai Lawrence, Dr. LIU Ta-pei and Mr. CHAU Wai Wah Fred as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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 announcement 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 announcement misleading.

This announcement will remain on the “Latest Listed Company Information” page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the website of the Company at www.sinopharmtech.com.hk.