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Kiu Hung International Holdings Limited

僑雄國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00381)

**FURTHER UPDATE ON THE MAJOR TRANSACTION —
(1) SUPPLEMENTAL AGREEMENT IN RELATION TO
THE ACQUISITION OF 51% EQUITY INTERESTS IN THE
TARGET COMPANY INVOLVING ISSUE OF THE CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE;
(2) BUSINESS UPDATE ON THE TARGET COMPANY
AND
(3) DELAY IN DESPATCH OF CIRCULAR**

Reference is made to the announcements of Kiu Hung International Holdings Limited (the “**Company**”) on 11 September 2019, 21 October 2019, 23 October 2019, 15 November 2019 and 11 February 2020 in relation to the Acquisition (the “**Announcements**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the Announcements.

SUPPLEMENTAL AGREEMENT

The Board announces that on 20 July 2020 (after trading hours), the Vendor, the Purchaser and Mr. Lin (the “**Guarantor**”) entered into the supplemental agreement to the Sale and Purchase Agreement (the “**Supplemental Agreement**”) pursuant to which the parties thereto agreed to amend and supplement certain terms of the Sale and Purchase Agreement as follow:

1. Revision to the original payment schedule

Pursuant to the Supplemental Agreement, the payment schedule of the Consideration shall no longer be settled in full on Completion but shall be re-scheduled in following manners:

- as to HK\$51 million by the issue of the 1st tranche convertible bonds (the “**1st Tranche Convertible Bonds**”) in the principal amount of HK\$51 million on Completion (the “**Initial Payment**”);

- as to a maximum of HK\$34 million (subject to adjustment under the paragraph headed “Consideration adjustment involving guaranteed profits”) by the issue of the 2nd tranche convertible bonds (the “**2nd Tranche Convertible Bonds**”) in the maximum principal amount of HK\$34 million (the “**First Consideration Payable**”) if the audited net profit after taxation (excluding extraordinary items) (the “**Actual Profits**”) of the Target Company for the 6-month period after Completion (the “**First Relevant Period**”) of RMB20 million (equivalent to approximately HK\$22 million) is attained;
- as to a maximum of HK\$34 million (subject to adjustment under the paragraph headed “Consideration adjustment involving guaranteed profits”) by the issue of the 3rd tranche convertible bonds (the “**3rd Tranche Convertible Bonds**”) in the maximum principal amount of HK\$34 million (the “**Second Consideration Payable**”) if the Actual Profits of the Target Company for the 6-month period after the First Relevant Period (the “**Second Relevant Period**”) of RMB20 million (equivalent to approximately HK\$22 million) is attained;
- as to a maximum of HK\$34 million (subject to adjustment under the paragraph headed “Consideration adjustment involving guaranteed profits”) by the issue of the 4th tranche convertible bonds (the “**4th Tranche Convertible Bonds**”) in the maximum principal amount of HK\$34 million (the “**Third Consideration Payable**”) if the Actual Profits of the Target Company for the 6-month period after the Second Relevant Period (the “**Third Relevant Period**”) of RMB21 million (equivalent to approximately HK\$23.1 million) is attained; and
- as to a maximum of HK\$17 million (subject to adjustment under the paragraph headed “Consideration adjustment involving guaranteed profits”) by the issue of the 5th tranche convertible bonds (the “**5th Tranche Convertible Bonds**”) in the maximum principal amount of HK\$17 million (the “**Final Consideration Payable**”) if the Actual Profits of the Target Company for the 6-month period after the Third Relevant Period (the “**Final Relevant Period**”) of RMB21 million (equivalent to approximately HK\$23.1 million) is attained. (any two or all of the First Relevant Period, Second Relevant Period, Third Relevant Period and Final Relevant Period collectively known as the “**Relevant Periods**” and each of them, the “**Relevant Period**” and any two or all of the First Consideration Payable, Second Consideration Payable, Third Consideration Payable and the Final Consideration Payable collectively, the “**Consideration Payables**” and each of them, the “**Consideration Payable**”).)

Save for the differences in the principal amount and the Maturity Date due to the different timing in the settlement of the Consideration, all other terms of each of the 1st to 5th Tranches Convertible Bonds shall be the same with the Convertible Bonds. No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock or securities exchange. Subject to the result of the Consideration adjustments detailed under the paragraph headed “Consideration adjustment involving guaranteed profits” at each payment interval, application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares by tranches under the Specific Mandate in accordance with the terms of the Sale and Purchase Agreement and Supplemental Agreement.

2. Consideration adjustment involving guaranteed profits

Pursuant to the Supplemental Agreement, the Vendor and the Guarantor unconditionally and irrevocably guaranteed the Purchaser that the aggregate Actual Profits (the “**Aggregate Guaranteed Profits**”) throughout the Relevant Periods shall be no less than RMB82 million (equivalent to approximately HK\$90.20 million). The Aggregate Guaranteed Profits shall be split into four tranches for settlement throughout the Relevant Periods, as follow:

(i) the Actual Profits of the Target Company for First Relevant Period shall be not less than RMB20 million (the “**First Guaranteed Profits**”); (ii) the Actual Profits of the Target Company for the Second Relevant Period shall be not less than RMB20 million (the “**Second Guaranteed Profits**”); (iii) the Actual Profits of the Target Company for the Third Relevant Period shall be not less than RMB21 million (the “**Third Guaranteed Profits**”); and (iv) the Actual Profits of the Target Company for the Final Relevant Period shall be not less than RMB21 million (the “**Final Guaranteed Profits**”). Pursuant to the Supplemental Agreement, the Actual Profits or loss in a Relevant Period shall have cumulative effect and the Actual Profits/loss in a Relevant Period will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the Consideration Payable to be satisfied by the Company to the Vendor.

The Company and the Vendor shall jointly procure an auditor to audit the financial statements of the Target Company within 2 months from the end of each Relevant Period and the auditor shall also issue a certificate for the Actual Profits of the Target Group to the Company and the Vendor (the “**Auditor’s Certificate**”) for each Relevant Period. The cost of issuing the Auditor’s Certificates for each Relevant Period shall be borne by the Company.

In the event the Actual Profits for the First Relevant Period is less than RMB20 million (equivalent to approximately HK\$22 million) but more than HK\$0, then the Company shall issue such portion of principal amount of the 1st Tranche Convertible Bonds to the Vendor (or its nominee) based on the follow formula:

$$\text{First Consideration Payable} \times \frac{\text{Actual Profits for the First Relevant Period}}{\text{First Guaranteed Profits}}$$

In the event the result of the above formula recorded a negative figure (i.e. a loss-making situation), then the 1st Tranche Convertible Bonds will not be issued to the Vendor and such negative figures will be carried forward in determining the Aggregate Guaranteed Profits up to the Second Relevant Period and the corresponding amount of the Second Consideration Payable to be satisfied by the Company to the Vendor. If the Actual Profits for the First Relevant Period exceed the First Guaranteed Profits, no upward adjustment will be allowed, however, the amount exceeding the First Guaranteed Profits will be carried forward in determining the Aggregate Guaranteed Profits up to the Second Relevant Period and the corresponding amount of the Second Consideration Payable to be satisfied by the Company to the Vendor.

In the event the Actual Profit(s) in a Relevant Period plus all previous accumulated Actual Profits/loss of all previous Relevant Period(s) is less than the amount of the Aggregate Guaranteed Profits up to such Relevant Period, then the Company shall issue such portion of principal amount of the Consideration Payable(s) to the Vendor (or its nominee) for such Relevant Period based on the following formula:

$$\begin{array}{r} \text{Aggregate} \\ \text{Consideration} \\ \text{Payable(s) up to} \\ \text{such Relevant} \\ \text{Period} \end{array} \times \frac{\begin{array}{r} \text{Accumulated Actual Profits/loss up to such} \\ \text{Relevant Period} \end{array}}{\begin{array}{r} \text{Aggregate Guaranteed Profits up to such} \\ \text{Relevant Period} \end{array}} - \begin{array}{r} \text{All previous paid} \\ \text{Consideration} \\ \text{Payable(s) immediately} \\ \text{prior to such} \\ \text{Relevant Period} \end{array}$$

In the event result of the above formula in the Second Relevant Period and/or the Third Relevant Period recorded a negative figure, then no part of the 2nd Tranche Convertible Bonds and/or the 3rd Tranche Convertible Bonds will be issued to the Vendor and such negative figures will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the Consideration Payable to be satisfied by the Company to the Vendor. If the accumulated Actual Profits up to a Relevant Period exceed the Aggregate Guaranteed Profits up to the same Relevant Period, no upward adjustment will be allowed, however, the amount exceeding the Aggregate Guaranteed Profits up to a Relevant Period will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the Consideration Payable to be satisfied by the Company to the Vendor.

In the event the result of the above formula in the Final Relevant Period recorded a negative figure, then no part of the 5th Tranche Convertible Bonds will be issued to the Vendor and the Vendor and the Guarantor shall compensate the Purchaser equals to such amount but subject to a maximum limit of HK\$102,000,000. (i.e. the maximum aggregate payment up to the Third Relevant Period).

For avoidance of doubt, actual amount to be paid at a Relevant Period may exceed the above-mentioned maximum Consideration Payable of the same Relevant Period due to the cumulative nature of the Consideration adjustment. However, the maximum total payout by the Company upon the end of the Relevant Periods will be equal to the Consideration.

Further adjustment to the Initial Payment

In the event the accumulated Actual Profits throughout the Relevant Periods is less than the Aggregate Guaranteed Profits throughout the Relevant Periods but more than HK\$0, then the Vendor and the Guarantor shall compensate the Purchaser the portion of the Initial Payment based on following formula:

$$\text{Initial Payment} \times \frac{(\text{Aggregate Guaranteed Profits throughout the Relevant Periods} - \text{accumulated Actual Profits throughout the Relevant Periods})}{\text{Aggregate Guaranteed Profits}}$$

No upward adjustment to the Consideration is allowed in the event the accumulated Actual Profits throughout the Relevant Period is more than the Aggregate Guaranteed Profits throughout the Relevant Periods. The maximum possible amount of the compensation at the end of the Relevant Period is limited to the Initial Payment plus any accumulate Consideration Payables paid out i.e. HK\$153,000,000.

Any compensation amount, if materialized, shall be compensated by the Vendor and the Guarantor to the Purchaser within fifteen (15) Business Days from the date of confirmation on the result of the fulfillment of the Aggregate Guaranteed Profits by the auditor and in the following order of priority:

- by reducing the principal amount of any issued and outstanding Convertible Bonds; and
- by way of cash and/or cash equivalent and/or any asset acceptable to the Group as to any outstanding balance of the compensation amount in the event the principal amount of any issued and outstanding Convertible Bonds is not sufficient to meet the compensation.

The Company will by way of formal announcements and in the upcoming annual reports update the Shareholders and potential investors regarding the fulfillment of the guaranteed profits as above-mentioned.

In the event that the Vendor and the Guarantor fails to pay the compensation amount in full in accordance with the terms of the Supplemental Agreement, the Vendor and the Guarantor shall continue to fulfill their obligation for compensation and pay late payment interest calculated on a daily basis until the date when compensation amount is fully paid. The daily interest rate shall be 0.05% of unpaid compensation amount.

Having considered that in the event the Target Company recorded zero profits throughout the Relevant Periods, no Consideration will be satisfied by the Purchaser to the Vendor, the Company is of the view that such Consideration adjustment mechanism would provide further protection to the interests of the Company and the Shareholders as a whole in this regards.

3. Extension of Long Stop Date

Pursuant to the Sale and Purchase Agreement, if the conditions set out in the Sale and Purchase Agreement have not been fulfilled or waived (as the case may be) by the Long Stop Date (i.e. 31 December 2019), the Sale and Purchase Agreement shall cease and determine and thereafter neither party to the Sale and Purchase Agreement shall have any obligations and liabilities thereunder.

Given that additional time is required for the fulfilment of the conditions precedent set out in the Sale and Purchase Agreement, the Purchaser, the Vendor and the Guarantor, after arm's length negotiation, have agreed to extend the Long Stop Date from 31 December 2019 to 30 September 2020 (or such later date as may be agreed among the parties in writing) pursuant to the Supplemental Agreement.

Save for the above, all other terms and conditions of the Sale and Purchase Agreement shall remain unchanged and continue in full force and effect.

BUSINESS UPDATE ON THE MAJOR ACQUISITION

The Board wishes to update the Shareholders and potential investors of the Company that as informed by the management of the Target Company, the Target Company has made the following business update:

Supplemental information on the procurement agreement between the Target Company and Sinopharm

Subsequent to the entering into of the Chinese herbs procurement agreement between the Target Company and Sinopharm Holding Hunan Co., Ltd* (國藥控股湖南有限公司) (the “**Sinopharm**”) (the “**Procurement Agreement**”), the Target Company and Sinopharm have entered into supplemental procurement agreements (the “**Supplemental Procurement Agreements**”) to (i) extend the term of the Procurement Agreement from 18 October 2020 to 18 November 2024 and (ii) Sinopharm guarantees to the Target Company to underwrite the contracted quantities of products in accordance with the terms and conditions of the Procurement Agreement and the Supplemental Procurement Agreements.

The Directors are of the view that the entering into of the Supplemental Procurement Agreements between the Target Company and Sinopharm reinforces the continuity of the Procurement Agreement and secure the revenue of the Target Company.

New procurement agreements between the Target Company and new customers

In addition to the Procurement Agreement and the Supplemental Procurement Agreements, the Target Company entered into procurement agreements with total contract value of approximately RMB91.6 million (equivalent to approximately HK\$100.73 million) with 4 new customers (the “**New Procurement Agreements**”) in January and February of 2020. Pursuant to New Procurement Agreements, purchasers guarantee to the Target Company to underwrite the contracted quantities of products in accordance with the terms and conditions of the New Procurement Agreements.

The Directors are of the view that the entering into of the New Procurement Agreements relieve the reliance on Sinopharm's demand and provide further income source for the Target Company.

DELAY IN DISPATCH OF CIRCULAR

As set out in the Announcements, a circular containing, among other things, (i) further details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the financial information of the Target Company; (iii) the financial information of the Group; (iv) pro forma financial information of the Enlarged Group; and (v) a notice convening the EGM, is expected to be dispatched to the Shareholders as soon as practicable.

As additional time is required for the Company to prepare and finalise the information to be included in the Circular, the Company now expects to despatch the Circular to the Shareholders on or before 31 August 2020.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

By Order of the Board
Kiu Hung International Holdings Limited
Zhang Qijun
Chairman

Hong Kong, 20 July 2020

As at the date of this announcement, the Board comprises three executive Directors, Mr. Zhang Qijun, Mr. Chen Jian and Mr. Liu Mingqing and five independent non-executive Directors, Mr. Wang Xiao Ning, Mr. Cheng Ho On, Mr. Kong Chun Wing, Mr. Lai Chi Yin, Samuel and Ms. Chen Yuxin.

For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK\$ are calculated at the approximate exchange rate of RMB1.00 to HK\$1.1. This exchange rate is for purpose of illustration only and do not constitute a representation that any amount have been, could have been, or may be, exchanged at this or another rate.

If there is any inconsistency in this announcement between the Chinese and English versions and the English version shall prevail.

** For identification purpose only*