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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)

**FURTHER ANNOUNCEMENT
IN RELATION TO
DISCLOSEABLE TRANSACTION AND
CONTINUING CONNECTED TRANSACTION
RELATING TO THE FRANCHISE AGREEMENT**

References are made to the announcement of Tongfang Kontafarma Holdings Limited (the “**Company**”) dated 6 May 2017, in relation to, among other things, the discloseable transaction and continuing connected transaction relating to the franchise agreement (the “**Announcement**”). Capitalised terms used in this announcement have the same meanings as defined in the Announcement unless otherwise defined.

On 29 May 2017 (the Completion Date), True Fitness Holdings (Singapore) Pte. Ltd. (an indirectly non-wholly owned subsidiary of the Company) as the Franchisor (“**True Fitness**” or the “**Franchisor**”) and True Concept as franchisee had entered into the Franchise Agreement pursuant to which the Franchisor shall grant to the True Yoga Cayman Group the non-transferable right and license to operate the Franchise Business at each specified premises in Taiwan under the proprietary rights owned by or available to the Franchisor in strict accordance with the system developed and implemented by the Franchisor for a term of 30 years. A royalty fee for the Franchise Business equivalent to 15% of the Gross Turnover of the immediately preceding month shall be payable by True Concept to the Franchisor. The royalty fee for the Franchise Business shall be adjusted to 17.5% if the Gross Turnover exceeds SG\$7,500,000 per month.

Pursuant to the franchising arrangement relating to the Franchise Business between the Franchisor and True Concept, the Franchisor will provide various information technology services and senior management services to True Concept from time to time to upkeep the Franchise Business. To better reflect the actual calculation and classification of the fee payable under the Franchise Business, True Fitness and True Concept entered into the following supplemental agreement to the Franchise Agreement (the “**Supplemental Agreement**”) and the service agreement (the “**Service Agreement**”) appended to the Supplemental Agreement (the Franchise Agreement, the Supplemental Agreement and the Service Agreement collectively referred to as the “**Revised Franchise Agreement**”) to amend the way fees are calculated, paid and classified.

For the avoidance of doubt, the amount of fees to be actually received by the Franchisor under the Revised Franchise Agreement remains unchanged and so thus the approved annual caps. Amendments are made merely to the way of calculation and payment of the fee payable under the Franchise Business such that they will now be classified and sub-divided as (i) royalty fee under the Franchise Agreement as amended by the Supplemental Agreement; and (ii) service fee under the Service Agreement.

The details of the Supplemental Agreement are as follows:

Date: 5 March 2018

Parties: True Fitness, an indirectly non-wholly owned subsidiary of the Company, as franchisor

True Concept, a company owned as to 29% by the Company and 71% by company controlled by Mr. PJW, who is a connected person of the Company at the subsidiary level, as franchisee

Mr. PJW

Subject Matter: A royalty fee for the Franchise Business equivalent to 15% of the Gross Revenue* of the immediately preceding month minus the information technology service fees and the mark-up on senior management service costs of the immediately preceding month arising out of the Service Agreement as detailed below.

The royalty fee for the Franchise Business shall be adjusted to 17.5% if the Gross Revenue exceeds SG\$7,500,000 per month.

* *Gross Revenue means the gross revenues that have been realised and derived from all merchandise and services sold or rendered by the Franchise Business, during the specified period; provided, however, that Gross Revenue shall not include any value added taxes or other taxes collected from customers by the Franchisee for transmittal to the appropriate taxing authority. Specifically, Gross Revenue for services are to be accounted for, as and when the services are performed, on a straight-line time apportioned basis*

The details of the Service Agreement (as appended to the Supplemental Agreement) are as follows:

Date: 5 March 2018

Parties: True Fitness as service provider

True Concept as service recipient

Subject Matter: Pursuant to the franchising arrangement relating to the Franchise Business between the Franchisor and True Concept, the Franchisor will provide various information technology services, including but not limited to the design, development and installation of Enterprise Resource Planning System, Email Service Provider System and General Manager module; and senior management services including but not limited to brand promotion, management training, etc to True Concept.

Term: Same term as the Franchise Agreement, an initial term of 30 years commencing retrospectively from the Completion Date (i.e 29 May 2017), and the Service Agreement may be extended for additional terms of three years following the expiry of the initial term at the discretion of True Fitness.

Fee: The service fees shall be charged on a cost-plus basis which means the fees for relevant services provided shall be calculated by multiplying the actual costs for the provision of such services by a margin of approximately 5%, with reference to the applicable tax laws and regulations, comparable transactional information, and in accordance with the arm's length principles and shall be payable on a monthly basis.

The Directors are of the view that the Franchise Business is the core business of the Target Group and consider that it is necessary for the term of the Service Agreement to be of such duration (which is more than three years and consistent with the term of the Franchise Agreement), which is in the interests of the Company and the Shareholders as a whole.

Opinion from Beijing Securities

The Company has engaged Beijing Securities as the independent financial advisor to provide independent advice in respect of the Revised Franchise Agreement pursuant to the requirement under Rule 14A.52 of the Listing Rules to explain why a period exceeding three years for the Service Agreement is required and to confirm that it is normal business practice for agreements of this type to be of a duration longer than three years.

Beijing Securities has taken into account the following factors when formulating its independent opinion pursuant to Rule 14A.52 of the Listing Rules:

- Pursuant to the Franchise Agreement, the Franchisor has granted the right to True Concept, on a royalty basis, the non-exclusive rights to operate the Franchise Business under the brand "True Fitness" and "True Yoga" at specified premises in Taiwan under the proprietary rights owned by or available to the Franchisor in strict accordance with the system developed and implemented by the Franchisor.
- Under the Franchise Business between the Franchisor and True Concept, the Franchisor will also provide various information technology services and senior management services to True Concept from time to time for the upkeep of the Franchise Business. To better reflect the actual calculation and classification of the fee payable under the Franchise Business, the Supplemental Agreement and the Service Agreement were entered into to amend the way fees are calculated, paid and classified.
- Under the Revised Franchise Agreement, the amount of fees to be actually received by the Franchisor under the Franchise Agreement remains unchanged and the Revised Franchise Agreement is simply to classify the way of calculation and payment of the fees under the Franchise Business – (i) royalty fee under the Franchise Agreement as amended by the Supplemental Agreement; and (ii) service fee under the Service Agreement.

- The royalty fee under the Revised Franchise Agreement is similar to the arrangement under the Franchise Agreement save for the deduction of the information technology service fees and the mark-up on senior management service costs of the immediately preceding month arising out of the Service Agreement. The service fees shall be charged on a cost-plus basis with a margin of approximately 5%. As mentioned above, it is expected that the total fees payable under the Revised Franchise Agreement shall be same as the fees payable under the Franchise Agreement.
- Given that the Service Agreement is part and parcel to the Supplemental Agreement and the Service Agreement is to clarify the way of calculation and payment of fees under the Franchise Business, Beijing Securities is of the view that it is commercially sensible that the Service Agreement shall have the same duration as the Franchise Agreement.
- In order to ensure that the Franchisee is able to continue the operation of the fitness centres without disruption and to keep up with all the regular maintenance of the premises and equipment, it is also practical to enter into a franchise agreement for a duration of longer than three years. A short duration may give rise to uncertainties on the operation of the fitness centres by the Franchisee and as such, it is reasonable to expect a relatively long term for such franchise agreement.
- It is anticipated that the Franchisee shall incur significant investment costs in the purchase of equipment and to renovate the fitness centres in order to maintain its competitiveness in the market. Further, it is also expected that the Franchisee shall also be required to upkeep the condition of the fitness centres and the equipment regularly. A longer view is required for these and therefore a longer duration under the Revised Franchise Agreement will provide assurance to the Franchisee to invest in the upkeep of the fitness centres and the equipment which is conducive to attracting new members as well as building customers' loyalty. In return, when a long-range plan is in place, the Franchisee is able to devote more resources to the business and be able to generate stable revenue therefrom and as a result, to improve the business of the Franchisee as well as to contribute to the royalty fee payable to the Franchisor.
- It is also beneficial to the Franchisor to enter into the Franchise Agreement with a longer duration as the Franchisee is familiar with the local market, and the royalty fees generated will be able to bring a constant income stream to the Group.
- Beijing Securities has also conducted research on other companies with similar franchise operations to the Franchise Business ("**Comparables**"). Beijing Securities noted that, in general, the term of the franchise agreements of the Comparables will be of a duration of more than three years.

Having considered the principal factors set out above, Beijing Securities is of the view that it is normal business practice for the Franchisor and True Concept to enter into a Revised Franchise Agreement (i.e., the Franchise Agreement, the Supplemental Agreement and the Service Agreement) of such duration.

ANNUAL CAPS AND BASIS

The original annual caps for the three years ending 31 December 2019 for the Revised Franchise Agreement remain unchanged. It is expected that the service fee will account for approximately 10% of the annual caps, and the royalty fee will account for approximately 90% of the annual caps, which in total amount to the same 15% of the Gross Revenue as contemplated under the Franchise Agreement, with a breakdown as follows:

	For the year ended/ending 31 December			
	2017		2018	2019
	<i>(appro HK\$ million)</i>		<i>(appro HK\$ million)</i>	<i>(appro HK\$ million)</i>
	Cap	Actual (unaudited)	Cap	Cap
Annual cap	35.82	33.33	91.81	117.67
<i>Royalty fee</i>	<i>31.32</i>	<i>29.89</i>	<i>82.62</i>	<i>105.90</i>
<i>Service fee</i>	<i>4.50</i>	<i>3.44</i>	<i>9.18</i>	<i>11.77</i>

As disclosed in the Announcement, the higher the annual caps, the more favourable to the Company and the Shareholders as a whole. The above annual caps were determined with reference to the following:

- (i) compound annual growth rate of True Concept's Gross Revenue of approximately 50% between 2017 and 2019, based on the historical growth rate of True Concept and the development plan of the Franchisor;
- (ii) royalty fee equivalent to 15% of the Gross Revenue of True Concept; and
- (iii) the historical split of the royalty fee and the service fee out of the 15% of the Gross Revenue for the year ended 31 December 2017.

The terms of the Revised Franchise Agreement were arrived at between the parties after arm's length negotiation. In view of the fact that the amount of fees to be actually received by the Franchisor under the Franchise Agreement, and thus the approved annual cap, remain unchanged, the Directors consider that the Revised Franchise Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group, the terms of the Revised Franchise Agreement are fair, reasonable and beneficial to the Company and are in the interests of the Shareholders as a whole.

Save for the amendments as set out in above, all other provisions of the Franchise Agreement remain in full force and effect.

LISTING RULES IMPLICATIONS

Mr. PJW is a substantial shareholder of True Cayman (a company owned as to 54% by the Group), accordingly, Mr. PJW is a connected person of the Company at the subsidiary level and the transactions contemplated under the Revised Franchise Agreement (including the Service Agreement) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

None of the Directors have a material interest in the Revised Franchise Agreement (including the Service Agreement) and they are not required to abstain from voting on the Board resolution in connection with the Revised Franchise Agreement (including the Service Agreement) and the Board has approved the Revised Franchise Agreement (including the Service Agreement) and the transactions contemplated thereunder. In addition, the Directors (including all the independent non-executive Directors) have confirmed that the terms of the Revised Franchise Agreement (including the breakdown of the annual caps and duration thereof) are fair and reasonable and on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole. Pursuant to Rule 14A.101 of the Listing Rules, the Revised Franchise Agreement is only subject to notification and announcement but is exempt from the circular, independent financial adviser and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

By Order of the Board
Tongfang Kontafarma Holdings Limited
Huang Yu
Chairman

Hong Kong, 5 March 2018

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Huang Yu (Chairman), Mr. Jiang Chaowen (Chief Executive Officer) and Mr. Ng Qing Hai, and three independent non-executive Directors, namely Mr. Chan Sze Chung, Mr. Zhang Ruibin and Mr. Zhang Junxi Jack.