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## 新世紀醫療控股有限公司

New Century Healthcare Holding Co. Limited

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1518)**

### **SUPPLEMENTAL ANNOUNCEMENT CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 12.47% EQUITY INTEREST OF JIAHUA YONGSHENG**

Reference is made to the announcement of New Century Healthcare Holding Co. Limited (the “**Company**”) dated 30 January 2022 (the “**Announcement**”) in relation to, among others, the Acquisition. Unless otherwise defined, capitalised terms used herein shall have the meanings as those defined in the Announcement. This announcement is made to provide supplemental information in relation to the Acquisition.

#### **A. BASIS FOR DETERMINATION OF THE CONSIDERATION**

As disclosed in the Announcement, the Consideration of RMB18.7 million for the Acquisition was determined after arm’s length negotiation between Jiahua Yihe and Jiahua Likang and on normal commercial terms with reference to the valuation of the entire equity interest of Qingdao New Century as appraised by a reputable qualified independent valuer (the “**Valuer**”).

In evaluating the fairness and reasonableness of the Consideration, the Board took into account factors including (a) the valuation of the entire equity interest of Qingdao New Century as appraised by the Valuer (the “**Valuation**”), (b) the operating performance and future prospects of Qingdao New Century, (c) the economic development prospects of Qingdao and the competition in local healthcare industry, and (d) the transaction valuation of recent merger and acquisition of for-profit hospitals, as detailed below:

- (a) The Company negotiated the transaction price with reference to the mid-point of the valuation range determined by the Valuer. The implied enterprise value to sales (“**EV/Sales**”) multiple of Qingdao New Century for the year ended 31 December 2021 is 3.94x,

which is in the range of 2.62x and 5.21x with median EV/Sales multiple of 3.92x of the comparable transactions identified in the valuation report on fair value of the entire equity interest in Qingdao New Century prepared by the Valuer, D&P China (HK) Limited (the “**Valuation Report**”). Given that the revenue and EBITDA of Qingdao New Century is still ramping up in view of its enhancing market position and operating efficiency, the Board believes that there is room for the enterprise value of Qingdao New Century to improve hence the equity value to increase;

- (b) The Board considered the improving historical operating and financial performance during the three years ended 31 December 2021 and future prospects of Qingdao New Century. In this respect, the Board noticed that Qingdao New Century experienced a continuing growth in revenue and EBITDA, decrease in net loss before taxation and increase in the number of outpatient visits.

Further, as illustrated in detail under paragraph (b) of the section headed “REASONS AND BENEFITS OF THE ACQUISITION” of this supplemental announcement, the Board believes that Qingdao has a great demand for quality pediatric healthcare services and due to the nationwide shortage of supply of pediatricians and pediatric medical resources, Qingdao New Century presents scarcity value in the market. Therefore, the Board is confident about the future business potential and development of the pediatric, obstetric and gynecologic services in Qingdao New Century; and

- (c) In addition, the Board also took into consideration the benefits expected to be brought by the Acquisition to both the Group and Qingdao New Century, as illustrated in detail under paragraph (c) of the section headed “REASONS AND BENEFITS OF THE ACQUISITION” of this supplemental announcement;
- (d) The Board also conducted its own research on recent transactions conducted by publicly listed companies involving acquisition of target companies with similar business nature of Qingdao New Century. The Board considered that recent transactions conducted by Jinxin Fertility Group Limited (stock code: 1951.HK), the group of which is principally engaged in the provision of assisted reproductive services in the PRC, Hong Kong and the United States, are comparable to the Acquisition. These transactions are relatively recent transactions conducted by a group listed on the Stock Exchange with available transaction

particulars and involve acquisition of target companies engaged in providing obstetrics, gynecology, pediatrics and/or reproductive medical services. A summary of the details of these transactions is set out below:

Date of agreement	Purchaser	Target company	Principal activities of the target company/target group	Percentage acquired	Consideration	Implied P/S multiples
19 October 2021	Jinxin Fertility Group Limited	JINXIN Medical Management (BVI) Group Limited, which (as at the date of the announcement of the transaction) indirectly holds 90%, 100% and 51% equity interest in Sichuan Jinxin Women and Children Hospital Co., Ltd. (四川錦欣婦女兒童醫院有限公司), Chengdu Jinxin Health Management Co., Ltd. (成都錦欣健康管理有限公司) and Chengdu Jinmai Innovative Testing Co., Ltd. (成都市錦邁創新實驗檢測有限公司)	Provision of obstetrics, gynecology and pediatrics medical services	100%	RMB3,000 million	The implied P/S multiple of the target company for the years ended 31 December 2019 and 2020 are 7.28x and 8.50x, respectively.

Date of agreement	Purchaser	Target company	Principal activities of the target company/target group	Percentage acquired	Consideration	Implied P/S multiples
18 June 2021	Sichuan Jinxin Fertility Medical Investment Management Co., Ltd. (四川錦欣生殖醫療投資管理有限公司) (an indirect wholly-owned subsidiary of Jinxin Fertility Group Limited);  Tianjin Binhai Yuanxian Management Consulting Center (Limited Partnership) (天津濱海遠賢管理諮詢中心(有限合夥)) (an investment vehicle in which Jinxin Fertility Group (BVI) Company Limited, a wholly-owned subsidiary of Jinxin Fertility Group Limited, holds approximately 15% indirect limited partnership interest)	eventually Yunnan Jiuzhou Hospital Co., Ltd. (雲南九洲醫院有限公司) (“ <b>Jiuzhou Hospital</b> ”) and Kunming Hewanjia Obstetrics and Gynecology Hospital Co., Ltd. (昆明和萬家婦產醫院有限公司) (“ <b>Hewanjia Hospital</b> ”)	Jiuzhou Hospital: general hospital; Hewanjia Hospital: specialized maternity hospital  Both hospitals possess in vitro fertilization licenses to provide assisted reproductive services to their patients	19.33%	RMB37.74 million and about USD17.25 million (equivalent to RMB111.4 million as disclosed) through different investment vehicles	The implied P/S multiple of the target hospitals for the years ended 31 December 2019 and 2020 are 2.76x and 2.91x, respectively.
27 January 2022	Chengdu Jinrun Fude Medical Management Company Limited (成都錦潤福德醫療管理有限公司) (a subsidiary of Jinxin Fertility Group Limited)	Shenzhen Zhongshan Urological Hospital (深圳中山泌尿外科醫院)	Specialty hospital specializing in assisted reproductive services	15%	RMB288.68 million	The estimated P/S multiple for the year ended 31 December 2021 is 5.85x (Note 1).

*Note:*

- As the transaction took place in January 2022 and the target’s financials for the year ended 2021 has not been published, the Board referred to the year over year growth rate of the target company in the 2021 Interim Report and applied the same revenue growth rate of 21.5% for the full year of 2021. The Board derived an estimated P/S multiple for the year ended 31 December 2021 of 5.85x.

In addition, the Board also considered transactions conducted by Suzhou Medical System Technology Co., Ltd., a company listed on the Shanghai Stock Exchange (SHSE: 603990), which involved acquisition of a target company principally engaged in providing obstetrics, gynecology and pediatrics services and specialized in assisted reproductive services. A summary of the details of these transactions is set out below:

Date of agreement	Purchaser	Target company	Principal activities of the target company/target group	Percentage acquired	Consideration	Other information
26 September 2019 (date of memorandum of understanding: 28 January 2019)	Suzhou Medical System Technology Co., Ltd.	Haikou Mary Hospital Co., Ltd. (海口瑪麗醫院有限公司)	Provision of obstetrics, gynaecology and pediatrics services specialized in assisted fertility	51%	RMB38.9 million	The implied P/S multiple of the target company for the years ended 31 December 2018 and 2020 are 2.54x and 5.91x, respectively, and the combined P/S multiple is 4.19x.
4 February 2021				49%	RMB111.2 million	

In referring to the above comparable transactions, the Board calculated the price-to-sales (“P/S”) multiples of these transactions as shown above and took into account the fact that the target companies under these transactions were profitable and/or the listed companies would obtain control over the target companies through most of these transactions and therefore, the P/S multiples were likely to reflect the premium paid by the respective listed company. In view of the above and other factors as stated in this supplemental announcement, the Board adopted the valuation amount of Qingdao New Century of RMB150 million, which indicates a P/S multiple for the year ended 31 December 2021 of 1.5x. This is far below the implied P/S multiples of the comparable companies as shown above.

In view of the above, the Board believes that the Consideration is fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **B. VALUATION OF THE TARGET GROUP**

### **1. Valuation Methods**

In determining the fair value of the equity interest of Qingdao New Century as of 31 December 2021, the Valuer applied a combination of discounted cashflow analysis (the “DCF”) under income approach, and guideline company method (the “GCM”) and

guideline transaction method (the “GTM”) under market approach. The fair value of 100% equity interest on non-controlling basis of Qingdao New Century as of 31 December 2021 was determined to be in the range of RMB102 million to RMB172 million.

### ***Income Approach***

The DCF method of the income approach explicitly recognizes that the current value of an investment is premised upon the expected receipt of future economic benefits such as periodic income, cost savings, or sale proceeds. Indication of value is developed by discounting future net cash flow to the present value at a rate that reflects both the current return requirement of the market and the risks inherent in the specific investment.

### ***Market Approach***

Under the GCM, financial ratios of guideline companies were analyzed to determine a value for Qingdao New Century. This method employs market price data of stocks of corporations engaged in the same or a similar line of business as that of Qingdao New Century. Stocks of these corporations are actively traded in a public, free, and open market, either on an exchange or over-the-counter.

The GTM employs the transaction price of corporations engaged in the same or a similar line of business as that of the Qingdao New Century. Both the transaction consideration and the financial data of the transactions were analyzed to determine a value applicable to Qingdao New Century.

Details of the valuation methodologies are set out as follows:

#### ***(a) DCF***

##### ***i. Projected Cashflow***

In applying DCF, future cashflow of Qingdao New Century was prepared based on management’s best estimate as of the valuation date, its business plan and certain commonly applied valuation assumptions. These assumptions include (i) no material changes in the existing political, legal and economic conditions in China; (ii) our ability to retain competent management, key personnel and staff to support our ongoing operations; and (iii) no material deviation in market conditions from economic forecasts.

##### ***ii. Discount Rate***

DCF involves applying appropriate discount rate to projected cash flows of Qingdao New Century. The discount rate was based on estimated average cost of capital (WACC) and was developed by capital asset pricing model (CAPM).

Based on a consideration of the factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systematic risk factors, the Valuer determined base case discount rate to be 14.5%. The Valuer also varied the discount rate from 13.5% to 15.5% at 0.5% interval to assess the impact of discount rate and derive the range of fair values under income approach.

(b) *GCM*

Under the GCM, the Valuer identified five guideline companies (the “**Guideline Companies**”) based on the following criteria:

- i. Public companies listed in the PRC, Hong Kong and the US with principal place of operation in the PRC and Hong Kong; and
- ii. Last twelve-month EBIT margin is below 10%. This criterion was determined taking into account the fact that Qingdao New Century was still loss-making during historical period.

The Valuer calculated the enterprise value (“**EV**”) to revenue of the Guideline Companies. The time periods for those earnings denominator of price multiples included revenue for latest twelve month (“**LTM**” or “**Trailing 12 months**”). Details are as follows:

Guideline Companies	Principal Activities	EV/LTM Revenue
New Century Healthcare Holding Co. Limited	managing pediatrics, obstetrics, and gynecology hospitals throughout China	0.23
New Frontier Health Corporation	providing healthcare services and offering healthcare platform consisting of a network of seven private hospitals and affiliated ambulatory clinics; serving patients in China and Hong Kong	3.83
UMP Healthcare Holdings Ltd.	healthcare solutions provider providing services for medical and dental needs and serves both contract and plan customers	0.65
Guangzheng Eye Hospital Group Co., Ltd.	operating ophthalmic chain medical clinics and providing femto second laser cataract surgery, high myopia therapy, floater therapy, diabetic retinopathy and other services; also operating urban gas pipeline manufacturing, structural steel construction and other businesses	4.65
C-Mer Eye Care Holdings Limited	providing general medical and surgical hospital services and offering eye disease examination, treatment and other medical services; serving patients in Hong Kong	7.81
Average		3.43
<b>Median</b>		<b>3.83</b>

Taking into account the profitability of Qingdao New Century, the Valuer selected 3.85x (rounded to 0.05x) EV/LTM Revenue multiple for valuing Qingdao New Century based on the median of the Guideline Companies' EV/Revenue multiples.

(c) *GTM*

Under the GTM, the Valuer selected two merger and acquisition transactions for reference as guideline transactions (the “**Guideline Transactions**”) based on the following criteria:

- i. The acquired companies are engaged in provision of hospital and clinical services in China;
- ii. The acquisition transactions were completed from 2019 to 2021;
- iii. There were publicly disclosed information regarding revenue and net profit of the acquired companies sourced from Capital IQ; and
- iv. Percentage acquired in comparable transactions was in the range of 10% to 50%.

Details of the Guideline Transactions are as follows:

<b>Companies acquired (completion date)</b>	<b>Principal activities</b>	<b>Implied Enterprise Value to Sales Multiple on nonmarketable basis</b>
Meinian OnehealthHealthcare Holdings Co.,Ltd. (SZSE: 002044) (6 December 2019)	health examinations and health consultation services; professional prevention, health protection, and medical butler services	5.21x
Laizhou Tongming Integrated Traditional Chinese and Western Medicine Hospital Co.,Ltd. (16 September 2020)	offering services for ophthalmology, traditional Chinese medicine, internal medicine, neck, shoulder, waist and leg pain, and adolescent myopia prevention and control	2.62x
	Average	3.92x
	<b>Median</b>	<b>3.92x</b>



Taking into account the profitability of Qingdao New Century, the Valuer selected 3.90x enterprise value (EV)/2021 revenue multiple for valuing Qingdao New Century based on the median implied multiples of the Guideline Transactions.

As Qingdao New Century was a privately held company, the Valuer considered DLOM should be applicable for valuing its equity interest on nonmarketable basis. The Valuer quantified DLOM by put option pricing model and determined that 10% DLOM should be appropriate for valuing Qingdao New Century. DLOM is applicable to the results derived from the GCM, GTM and DCF.

## **2. Key Assumptions of the Valuation**

In this valuation, the Valuer adopted the following key assumptions:

- i. No major changes are expected in political, legal and economic conditions in China;
- ii. Regulatory environment and market conditions for healthcare industry will be developing according to prevailing market expectations;
- iii. There will be no major changes in the current taxation law applicable to Qingdao New Century;
- iv. Qingdao New Century will not be constrained by the availability of finance;
- v. The future movement of exchange rates and interest rates will not differ materially from prevailing market expectations; and
- vi. Qingdao New Century will retain competent management, key personnel and technical staff to support its ongoing operations.

## **3. The Board's Assessment of the Valuation**

After reviewing and discussing with the Valuer, the Board considered the valuation methodologies as fair and reasonable because (i) Qingdao New Century has demonstrated revenue growth and declining trend of operating loss, narrowing the differences with identified guideline companies; (ii) the Valuer has established criteria to account for the differences in profitability between Qingdao New Century and guideline companies; (iii) the Valuer has also applied income approach to counter check and address the limitation of market approach; and (iv) the Valuer is a well-known worldwide appraiser with specialization, the Board considered that the Valuer has requisite expertise and competence to conduct the valuation on Qingdao New Century and is of the opinion that professional judgment made by the Valuer is reliable.

## C. REASONS AND BENEFITS OF THE ACQUISITION

The Company would like to provide supplemental information with respect to the reasons and benefits of the Acquisition as follows:

- (a) Our Directors notice that notwithstanding the losses made in the three financial years ended 31 December 2021, Qingdao New Century has achieved improvement in its financial and operating performance from the year ended 31 December 2019 to the year ended 31 December 2021, as indicated by its increasing revenue and EBITDA, decreasing net loss before taxation and increasing number of outpatient visits. In view of the business growth momentum and the high-caliber professional medical and management team of Qingdao New Century, the Directors anticipate that the growth momentum of Qingdao New Century will be able to sustain and thus the Group will benefit from sharing the financial results of Qingdao New Century in the long run.
- (b) Qingdao has an active economy and demonstrates an encouraging development trend. Its GDP ranked 13th in the PRC in 2021, with a year-on-year growth rate of 14%. It is one of the six cities in northern China whose GDP exceeds RMB1 trillion. As the only new Tier 1 city in Shandong province, Qingdao has shown a regional leading effect. It has advanced medical technology and profound medical resources. It also has a gathering effect on the high-end consumption capability in Shandong province. In addition, Qingdao has the increasing ordinary resident population including the number of children. These indicate an increasing demand for healthcare service providers which are capable of providing comprehensive private pediatric and obstetric and gynecologic healthcare services with high-quality and superior clinic visit experience for mid-to high-end families.

On the supply side, however, the PRC is experiencing a shortage of pediatricians as well as pediatrics specialty hospitals nationwide and, in particular, private hospitals which can provide comprehensive mid-to high-end pediatrics services.

The Board is therefore confident about the future business potential and development of the pediatric, obstetric and gynecologic services in Qingdao New Century. The Group plans to enter mid-to high-end medical service market in Qingdao and the acquisition of a minority interest in Qingdao New Century is a cautious attempt in the early stage of the implementation of such development strategy. The Acquisition therefore represents a valuable opportunity to extend the business footprints and broaden business networks of the Group.

- (c) Further, the commencement of operation of Qingdao New Century in 2018 represented a foothold for the “New Century Healthcare” brand in Shandong Peninsula. The Acquisition, which included Qingdao New Century as part of the Group, represents a further expansion of the Group’s medical institutions network and services coverage in Shandong. The Group enjoys a prevailing market share in Beijing’s mid-to high-end pediatric medical service market and has accumulated profound operational know-how for

providing such medical services to mid-to high-end families, especially the pediatric family doctor services which have been in operation for several years. The Acquisition will enable the Group and Qingdao New Century to complement and leverage the existing services, experience and competitive strengths of the Group. The Group is expected to bring and enhance expert resources to Qingdao New Century, warm up the brand's localized development in Qingdao, increase the brand's market influence, enhance its market recognition and further strengthen its leading market position.

From the prospective of Qingdao New Century, having the Group, which is listed on the Main Board of the Stock Exchange and which has accumulated profound operational know-how for providing pediatric medical services to mid-to high-end families, as its shareholder is conducive to improving consumer perception and enhancing confidence of potential local customers, partners and talents in Qingdao New Century, which further helped in attracting more customers and recruiting and retaining more high-caliber management and professional medical staff. This is particularly important in the post epidemic era when families pay more attention to the brand of medical institutions when choosing medical services. Thus, leveraging on the competitive strengths of the Group, the Acquisition is expected to increase Qingdao New Century's market share and bring Qingdao New Century to one of the top mid-to high-end pediatrics and obstetrics specialty medical service institutions in Qingdao characterized by pediatric services.

Therefore, the Acquisition is beneficial to both the Group and Qingdao New Century. The Group would be able to expand its coverage of the pediatrics, obstetrics and gynecology healthcare services into a larger target market and Qingdao New Century would be able to unleash its potential for further business expansion.

Save as disclosed above, all other information as set out in the Announcement remain unchanged.

By Order of the Board  
**New Century Healthcare Holding Co. Limited**  
**Mr. Jason ZHOU**

*Chairman, Executive Director and Chief Executive Officer*

Beijing, the PRC, 29 March 2022

*As at the date of this announcement, the Board comprises Mr. Jason ZHOU, Ms. XIN Hong and Mr. XU Han, as executive Directors; Mr. GUO Qizhi, Mr. WANG Siye, Dr. CHENG Chi-Kong, Adrian, Mr. YANG Yuelin and Mr. XIE Qiang, as non-executive Directors; and Mr. WU Guanxiong, Mr. SUN Hongbin, Mr. JIANG Yanfu and Dr. MA Jing, as independent non-executive Directors.*

\* *For identification purposes only*