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廣東康華醫療股份有限公司
GUANGDONG KANGHUA HEALTHCARE CO., LTD.*
(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 3689)

VOLUNTARY ANNOUNCEMENT

BUSINESS UPDATE

ARRANGEMENTS RELATING TO KANGXIN HOSPITAL

MANAGEMENT ARRANGEMENTS

The Board announces that on 23 May 2022, the Company entered into the Management Arrangements with Silver Mountain, pursuant to which Silver Mountain has assumed management of the day-to-day operations of Kangxin Hospital. The Management Arrangements will leverage the network, resources and healthcare capability of Silver Mountain to improve and optimise the operations of Kangxin Hospital.

The Management Arrangements may result in the possible disposal of Kangxin Hospital by the Group. In the event that Kangxin Hospital is able to reach certain pre-agreed Performance Metrics during the Performance Period, Silver Mountain may exercise the Purchase Right to acquire a controlling stake in Kangxin Hospital, after which Kangxin Hospital will cease to be a subsidiary of the Company.

LISTING RULES IMPLICATIONS

As all of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the possible disposal of Kangxin Hospital as contemplated under the Management Arrangements (on the basis that the Group will continue to hold the land and buildings underlying Kangxin Hospital through the Property Company) are less than 5%, the entering into of the Management Arrangements do not constitute a notifiable transaction under Chapter 14 of the Listing Rules. This announcement is made by the Company on a voluntary basis. The purpose of this announcement is to keep the Shareholders and potential investors of the Company informed of the latest business development of the Group.

THE MANAGEMENT ARRANGEMENTS

The Board would like to inform the Shareholders that the Company has entered into the Management Arrangements with Silver Mountain on 23 May 2022, pursuant to which Silver Mountain has assumed management of the day-to-day operations of Kangxin Hospital for a period of 20 years subject to certain terms and conditions.

The Management Arrangements may result in the disposal of Kangxin Hospital by the Group. In the event that Kangxin Hospital is able to reach certain agreed Performance Metrics during the Performance Period, Silver Mountain may exercise the Purchase Right to acquire a controlling stake in Kangxin Hospital from the existing shareholders of Kangxin Hospital, namely the Company and Jiade Healthcare. If the foregoing materialises, Kangxin Hospital will cease be a subsidiary of the Company, while the Property Company (which will hold the land and buildings and other fixed assets underlying Kangxin Hospital after the Demerger as discussed below) will remain as a subsidiary of the Company. It is contemplated that the Property Company will enter into a long-term lease agreement with Kangxin Hospital for the use of the land and buildings and other fixed assets underlying Kangxin Hospital with a two-year rent-free period, and subsequent rentals to be determined with reference to the total property value of the Property Company.

1. Services contemplated under the Management Arrangements

Pursuant to the Management Arrangements, Silver Mountain shall provide a series of services with a view to improving and optimising the operations of Kangxin Hospital including international cooperation, overseas resources, domestic resources, research capabilities, clinical achievement transformation, policy innovation, cooperation with medical colleges, key scientific construction, medical informatics, medical payment system, quality control, expert collaboration and cost control.

2. Fees payable by Kangxin Hospital

Kangxin Hospital shall pay to Silver Mountain certain brand introduction fee to procure the introduction of the German brand “Artemed” to Kangxin Hospital and other management and consultancy fees in connection with Silver Mountain's services under the Management Arrangements.

3. The Performance Metrics

The Performance Metrics during the Performance Period (i.e., the 12-month period beginning from the 1st the day of the month after the completion of the transfer of management rights of Kangxin Hospital to Silver Mountain pursuant to the Management Arrangements, which is currently expected to be 1 June 2022 to 31 May 2023) are agreed as follows:

- (i) the audited revenue of Kangxin Hospital (for the avoidance of doubt, excluding government financial incentives that are not relevant to hospital operations or research activities) is higher by more than an agreed threshold; and
- (ii) Kangxin Hospital has not been subject to any material medical safety incidents, material administrative penalties, suspension of operation and material adverse public sentiment that could affect the reputation of the Company and its controlling shareholders.

4. Demerger

In connection with the Management Arrangements, Kangxin Hospital will undergo the Demerger under PRC laws, pursuant to which the land and buildings and other fixed asset underlying the operations of Kangxin Hospital will be carved out and become held by a new entity, namely the Property Company. Immediately after the Demerger, each of Kangxin Hospital and the Property Company will be held by the existing shareholders of Kangxin Hospital, namely the Company and Jiade Healthcare. The purpose of the Demerger is to implement the arrangements after the Performance Period if Kangxin Hospital is able to achieve the Performance Metrics and Silver Mountain decides to exercise the Purchase Right as further discussed below. Certain arrangements will be put in place such that after the Demerger, the Property Company will in substance assume all the assets and liabilities of Kangxin Hospital immediately prior to the Demerger.

5. Arrangements after the Performance Period

The major arrangements after the Performance Period as contemplated by the parties are summarised below.

In the event that Kangxin Hospital is not able to achieve the Performance Metrics during the Performance Period, the Company may terminate the Management Arrangements, and Silver Mountain shall transfer the management rights over Kangxin Hospital to the Company and refund a certain portion of the brand introduction fee paid.

In the event that Kangxin Hospital is able to achieve the Performance Metrics during the Performance Period, Kangxin Hospital shall pay Silver Mountain a one-off performance bonus equal based on an agreed percentage of the audited revenue of Kangxin Hospital during the Performance Period and Silver Mountain shall have the Purchase Right to acquire a controlling stake in the Kangxin Hospital from the Company and Jiade Healthcare at a consideration based on the valuation of Kangxin Hospital according to a methodology agreed by the parties:

- (a) if Silver Mountain decides not to exercise the Purchase Right, and the parties are desirous of Silver Mountain continuing to manage Kangxin Hospital, then the parties shall negotiate in good faith and enter into a new management arrangement, including agreeing on the amount of fees payable; furthermore, Silver Mountain shall refund a certain portion of the brand introduction fee paid and ensure that Kangxin Hospital's arrangement in relation to "Artemed" shall continue to subsist; or
- (b) if Silver Mountain decides to exercise the Purchase Right,
 - (i) the relevant parties shall enter into the equity transfer agreement with respect to a controlling stake in Kangxin Hospital. The respective equity interests of the Company and Jiade Healthcare in Kangxin Hospital to be transferred to Silver Mountain will be determined by the parties at the relevant time. The Company may, after the transfer, retain certain minority interests in Kangxin Hospital;
 - (ii) prior to the completion of equity transfer, Kangxin Hospital shall pay Silver Mountain certain management and consultancy fees; and
 - (iii) Kangxin Hospital shall enter into a long-term lease agreement with the Property Company after the Demerger for the use of the land and buildings and other fixed assets underlying Kangxin Hospital. It is contemplated there will be a 2-year rent-free period, with subsequent rental to be determined with reference to the total property value of the Property Company.

After the transfer, Kangxin Hospital will become majority held by Silver Mountain and will cease to be a subsidiary of the Company. For the avoidance of doubt, it is contemplated that the Property Company (which will assume the assets and liabilities of Kangxin Hospital immediately prior to the Demerger, including the land and buildings and other fixed assets underlying the operations of Kangxin Hospital) will remain a subsidiary of the Company.

The arrangements after the Performance Period as discussed above are based on the current intention of the parties through arm's length negotiations and may be subject to modifications as the then circumstances require. The Company will make further announcements as and when appropriate if required under the Listing Rules.

REASONS AND BENEFITS OF THE MANAGEMENT ARRANGEMENTS

Since the Company acquired Kangxin Hospital in 2018, Kangxin Hospital has continued to operate at a loss. While the Board is confident about the long-term prospects of Kangxin Hospital, the COVID-19 pandemic has adversely affected the ramp up of its operations. The Board considers that the Management Arrangements (including the eventual disposal of the Kangxin Hospital by the Group) are a good opportunity to leverage Silver Mountain's network and resources to ramp up and optimise the operations of Kangxin Hospital in a shorter timeframe, and minimise further loss the Group may incur in connection with Kangxin Hospital.

The Board (including the independent non-executive Directors) considers that the Management Arrangements are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE PARTIES

1. The Group

The Group is principally engaged in the provision of hospital services, provision of rehabilitation and other healthcare services and provision of elderly healthcare services in the PRC.

2. Silver Mountain

Silver Mountain was founded in 2013 in Hong Kong by a European family to capture opportunities in the PRC. Silver Mountain is committed to deepening economic exchanges between the PRC and the West through the introduction of management experience, management models and service models of advanced international medical institutions. Silver Mountain is focused on developing a healthcare ecosystem centered on the development and operation of Sino-foreign hospitals. Silver Mountain has extensive international resources (Europe, North America and Israel etc.) in addition to those in the PRC, including first-class medical institutions, educational institutions, financial institutions, high-tech companies, research institutions and cultural and creative institutions along with a deep network of contacts.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, Silver Mountain and its ultimate beneficial owners are Independent Third Parties of the Company.

LISTING RULES IMPLICATIONS

As all of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the possible disposal of Kangxin Hospital as contemplated under the Management Arrangements (on the basis that the Group will continue to hold the land and buildings underlying Kangxin Hospital through the Property Company) are less than 5%, the entering into of the Management Arrangements do not constitute a notifiable transaction under Chapter 14 of the Listing Rules. This announcement is made by the Company on a voluntary basis.

As the disposal of Kangxin Hospital by the Group may or may not materialise, the Shareholders and potential investors are advised to exercise caution in dealing in the securities of the Company.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings, unless the context requires otherwise:

“Board”	the board of Directors
“Company”	Guangdong Kanghua Healthcare Co., Ltd.* (廣東康華醫療股份有限公司), a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 3689)
“Demerger”	the demerger of Kangxin Hospital under PRC laws in connection with the Management Arrangements as described in “Management Arrangements – 4. Demerger”
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any entity(ies) or persons that is not a connected person of the Company within the meaning ascribed thereto in the Listing Rules

“Jiade Healthcare”	Dongguan Jiade Healthcare Investment Co., Ltd.* (東莞嘉德醫療投資有限公司), a limited liability company established in the PRC on 26 February 2013 and the non-controlling shareholder holding 40% interest in Kangxin Hospital, wholly-owned by an Independent Third Party
“Kangxin Hospital”	Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd.* (重慶康華衆聯心血管病醫院有限公司), a limited liability company established in the PRC on 10 June 2014 and a non-wholly owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Management Arrangements”	the management arrangements entered into between the Company and Silver Mountain on 23 May 2022 in relation to, among other things, the management of the day to day operations of Kangxin Hospital for a period of 20 years subject to certain terms and conditions
“Performance Period”	the 12-month period beginning from the 1st the day of the month after the completion of the transfer of management rights of Kangxin Hospital to Silver Mountain pursuant to the Management Arrangements; currently the Performance Period is expected to be 1 June 2022 to 31 May 2023
“Performance Metrics”	the pre-agreed performance metrics of Kangxin Hospital as set out in “Management Arrangements – 3. The Performance Metrics”
“Property Company”	a company to be established under the laws of the PRC pursuant to the Demerger, which will primarily hold the land and buildings underlying Kangxin Hospital and other fixed assets currently held by Kangxin Hospital
“PRC”	the People’s Republic of China
“Purchase Right”	Silver Mountain’s right to purchase a controlling stake in Kangxin Hospital from the Company and Jiade Healthcare
“RMB”	Renmibi, the lawful currency of the PRC
“Share(s)”	share(s) in the share capital of the Company

“Shareholder(s)”	holder(s) of the Share(s)
“Silver Mountain”	Silver Mountain Capital Limited (銀山資本有限公司), a limited liability company established in Hong Kong on 9 October 2013 and an Independent Third Party, and in the context of this announcement, includes its group of companies
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
Guangdong Kanghua Healthcare Co., Ltd.*
WONG Wai Hung Simon
Executive Director and Vice Chairman

Hong Kong, 23 May 2022

As at the date of this announcement, the Board Comprises:

Executive Directors:

Mr. Wang Junyang (*Chairman*)
Mr. Chen Wangzhi (*Chief executive officer*)
Mr. Wong Wai Hung Simon (*Vice chairman*)
Ms. Wang Aiqin

Independent non-executive Directors:

Dr. Chen Keji
Mr. Yeung Ming Lai
Mr. Chan Sing Nun

Non-executive Director:

Mr. Lv Yubo

* *For identification purpose only.*