

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.



Town Health International Medical Group Limited
康健國際醫療集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 3886)

**CONTINUING CONNECTED TRANSACTIONS:
SERVICE AGREEMENT**

Reference is made to the announcement of the Company dated 11 November 2022 in relation to, among others, the appointment of Dr. Tsang as an executive Director with effect from the date of this announcement.

SERVICE AGREEMENT

The Board announces that on 11 July 2022, HKMC, a company which has become a wholly-owned subsidiary of the Company with effect from the Acquisition Completion Date (i.e. 26 August 2022), entered into the Service Agreement with KTAL, a company owned by Dr. Tsang (a director of HKMC and other subsidiaries of the Company as at the Acquisition Completion Date, and an executive Director as at the date of this announcement) and his spouse in equal shares, in respect of (i) the provision of the KTAL Services by KTAL to HKMC; and (ii) the provision of the HKMC Services by HKMC to KTAL.

IMPLICATIONS UNDER THE LISTING RULES

With effect from the Acquisition Completion Date, Dr. Tsang, who holds 50% of the issued share capital of KTAL, has become a director of a number of subsidiaries of the Company and thus a connected person of the Company at the subsidiary level. Accordingly, KTAL, being an associate of Dr. Tsang, has become a connected person of the Company at the subsidiary level since the Acquisition Completion Date. The transactions contemplated under the Service Agreement therefore constituted continuing connected transactions of the Company with connected person at the subsidiary level for the purposes of Chapter 14A of the Listing Rules with effect from the Acquisition Completion Date.

Following the appointment of Dr. Tsang as an executive Director with effect from the date of this announcement, Dr. Tsang and KTAL have become connected persons of the Company at the issuer level for the purposes of Chapter 14A of the Listing Rules with effect from the date of this announcement.

Taking into consideration that the applicable percentage ratios relating to the KTAL Annual Caps exceed 0.1% but are less than 1%, the continuing connected transactions in relation to the provision of the KTAL Services by KTAL to HKMC under the Service Agreement (i) were fully exempt from the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules as at the Acquisition Completion Date; and (ii) are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules with effect from the date of this announcement.

Taking into consideration that the applicable percentage ratios relating to the HKMC Annual Caps exceed 0.1% but are less than 1%, the continuing connected transactions in relation to the provision of the HKMC Services by HKMC to KTAL under the Service Agreement (i) were fully exempt from the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules as at the Acquisition Completion Date; and (ii) are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules with effect from the date of this announcement.

Reference is made to the announcement of the Company dated 11 November 2022 in relation to, among others, the appointment of Dr. Tsang as an executive Director with effect from the date of this announcement.

The Board announces that on 11 July 2022, HKMC, a company which has become a wholly-owned subsidiary of the Company with effect from the Acquisition Completion Date (i.e. 26 August 2022), entered into the Service Agreement with KTAL, a company owned by Dr. Tsang (a director of HKMC and other subsidiaries of the Company as at the Acquisition Completion Date, and an executive Director as at the date of this announcement) and his spouse in equal shares, in respect of (i) the provision of the KTAL Services by KTAL to HKMC; and (ii) the provision of the HKMC Services by HKMC to KTAL.

SERVICE AGREEMENT

Major terms of the Service Agreement are as follows:

Date

11 July 2022 (the date of the supplemental agreement being 11 November 2022)

Parties

(1) HKMC; and

(2) KTAL

Duration

The term of the Service Agreement is three years commenced from 26 August 2022 and ending on 25 August 2025.

Termination

HKMC may early terminate the Service Agreement by giving KTAL and the Key Individual not less than 90 days' prior written notice. If HKMC has committed a material breach of the Service Agreement and (in the case of a breach which is capable of remedy) has failed to remedy the same within 30 days after HKMC's receipt of written notice given by KTAL specifying the nature of the breach and requiring it to be remedied, the Service Agreement may be terminated by KTAL with immediate effect by written notice to HKMC. Save as disclosed above, the Service Agreement may not be early terminated by KTAL and/or the Key Individual at any time prior to the expiry of its term.

The Service Agreement may be terminated by HKMC with immediate effect by notice in writing to KTAL if:

- (i) KTAL breaches a material term of the Service Agreement;
- (ii) the Key Individual fails to perform the KTAL Services up to the professional standard required by the Medical Council of Hong Kong;
- (iii) the Key Individual is not qualified to provide the KTAL Services in Hong Kong due to suspension of his/her registration as a medical practitioner or removal of his/her name from the register of medical practitioner or any reason under the laws of Hong Kong;
- (iv) the Key Individual ceases to perform the KTAL Services with HKMC and the parties to the Service Agreement fail to agree on a replacement; or
- (v) KTAL and/or the Key Individual become(s) insolvent, go(es) into liquidation or bankrupt (as the case may be) or are otherwise not able to carry out the KTAL Services or the duties under the Service Agreement in compliance with all applicable laws.

Subject matter

KTAL Services

KTAL shall procure each of the Key Individuals to provide the KTAL Services to HKMC.

HKMC Services

HKMC shall provide the following services (“**HKMC Services**”) to KTAL:

- (i) providing to the Key Individual such facilities and equipment as mutually agreed by KTAL and HKMC for provision of the KTAL Services; and
- (ii) providing to the Key Individual nursing, pharmacy, billing, administrative and other support services for provision of the KTAL Services.

Service fees

KTAL Services

In consideration of the provision of the KTAL Services by KTAL, HKMC shall pay to KTAL a performance fee (“**Performance Fee**”), determined with reference to the operating profit generated from the KTAL Services provided by KTAL and/or the Key Individual to the Group, which shall be the aggregate of the following:

- (i) 60% of the operating profit generated from the service in relation to medical consultation and treatment, and hospitalised services and interpretation (which is calculated as the operating profit attributable to the Key Individual less the gross profit for medication and investigation services);
- (ii) 40% of the operating profit generated from the service in relation to medication (which is calculated as the medication revenue less the cost of inventories consumed); and
- (iii) 40% of the operating profit generated from the service in relation to investigation (which is calculated as the investigation revenue less the laboratory test cost).

HKMC shall issue a breakdown to KTAL in respect of the Performance Fee and all costs and expenses payable by KTAL under the Service Agreement (“**KTAL Costs and Expenses**”), in arrears on a monthly basis. HKMC shall pay the undisputed Performance Fee after deducting the undisputed KTAL Costs and Expenses to KTAL within 14 days from the issuance of the breakdown.

HKMC Services

KTAL shall be responsible for its share of the costs and expenses arising from HKMC’s provision of the HKMC services and/or relating to the setup, upkeep and management of the clinics operated by HKMC (“**Clinics**”) and offices. Such costs and expenses include the direct costs and expenses relevant to the provision of the medical services by the Key Individual carrying out the KTAL Services, which shall include the following:

- (i) the rent relating to the use of the Key Individual’s own room in the Clinics (“**Rent**”), currently estimated at HK\$25,000 per month (subject to any adjustment mutually agreed between the parties to the Service Agreement) taking into account the size of the room and the rental of the Clinics payable by HKMC to the landlord(s);
- (ii) the costs of the dedicated staff who shall be employees of HKMC and are engaged by HKMC to provide services to KTAL and/or the Key Individual solely, and KTAL shall reimburse HKMC 100% of the costs of such dedicated staff incurred by HKMC (including but not limited to the salaries and all related expenses of such dedicated staff);
- (iii) the costs of such facilities and equipment provided by HKMC to the consultants (including KTAL) engaged by HKMC, and the registered medical practitioners employed by HKMC, for provision of medical services to the Group (“**Facility and Equipment Costs**”) which shall be allocated over the useful lives of the relevant facilities and equipment according to the accounting policies of HKMC. The Facility and Equipment Costs of any facility or equipment for a calendar month shall be shared equally by all such consultants and registered medical practitioners who are entitled to use such facility or equipment and have agreed to bear the same. KTAL shall pay to HKMC its share of the Facility and Equipment Costs in a calendar month in respect of all the facilities and equipment in which it is entitled to use and has agreed to bear the relevant Facility and Equipment Costs for such calendar month; and

(iv) the cost of inventory consumed, treatment cost, commission fee for hospital, air-conditioning fee, rates, depreciation of medical equipment, leasehold improvements, bank charges, central clinic and administration costs (including nursing, pharmacy and billing), and costs for other support services for provision of the KTAL Services (“**Other Expenses**”). KTAL shall pay to HKMC its share of the Other Expenses in a calendar month, which shall be determined in accordance with the ratio of the operating profit generated by KTAL and/or the Key Individual from the KTAL Services provided to the Group for such calendar month less the Rent, the costs of the dedicated staff, and the share of the Facility and Equipment Costs payable by KTAL for such calendar month to the total operating profit generated by all the consultants (including KTAL) engaged by HKMC for provision of medical services to the Group for such calendar month less all the rent, the costs of the dedicated staff, and the Facility and Equipment Costs payable by all the consultants for such calendar month.

The operating profit, the Rent, the costs of the dedicated staff, the Facility and Equipment Costs and the Other Expenses shall be determined with reference to the relevant monthly management accounts of HKMC. KTAL shall pay to HKMC the Rent, the costs of the dedicated staff, its share of the Facility and Equipment Costs, and its share of the Other Expenses in a calendar month in arrears on a monthly basis.

Historical figures

KTAL did not provide any KTAL Services to HKMC for the years ended 31 December 2019, 2020 and 2021.

HKMC did not provide any HKMC Services to KTAL for the years ended 31 December 2019, 2020 and 2021.

Annual caps

KTAL Annual Caps

The KTAL Annual Caps for Period 2022, Year 2023, Year 2024 and Period 2025 will be HK\$4,800,000, HK\$14,300,000, HK\$14,300,000 and HK\$9,500,000, respectively.

The KTAL Annual Caps are estimated primarily with reference to:

- (i) the historical value of the medical services provided by Dr. Tsang to HKMC in the three years ended 31 December 2019, 2020 and 2021; and
- (ii) the estimated Performance Fee during the term of the Service Agreement based on the future demand for the KTAL Services in Period 2022, Year 2023, Year 2024 and Period 2025,

and on the principal assumptions that, for the duration of the projected period, there will not be any significant change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group.

HKMC Annual Caps

The HKMC Annual Caps for Period 2022, Year 2023, Year 2024 and Period 2025 will be HK\$2,100,000, HK\$6,300,000, HK\$6,300,000 and HK\$4,200,000, respectively.

The HKMC Annual Caps are estimated primarily with reference to:

- (i) the historical value of the supporting services provided by HKMC to Dr. Tsang in the three years ended 31 December 2019, 2020 and 2021; and
- (ii) the estimated costs and expenses payable to HKMC by KTAL during the term of the Service Agreement based on the future demand for the HKMC Services in Period 2022, Year 2023, Year 2024 and Period 2025,

and on the principal assumptions that, for the duration of the projected period, there will not be any significant change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group.

In view of the above, the Directors (including the independent non-executive Directors but excluding Dr. Tsang and Mr. Shiu Shu Ming who were appointed as Directors at the meeting of the Board approving the Service Agreement) are of the view that the KTAL Annual Caps and the HKMC Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Internal controls

The Group will undertake the following internal control measures to monitor the terms and conditions of the transactions contemplated under the Service Agreement and ensure that (a) the prices and terms of the KTAL Services offered by KTAL to the Group will be no less favourable to the Group than the prices and terms offered by independent third parties to the Group; (b) the prices and terms of the HKMC Services offered by the Group to KTAL will be no less favourable to the Group than the prices and terms offered by the Group to independent third parties; and (c) the KTAL Annual Caps and the HKMC Annual Caps will not be exceeded:

- (1) comparing the prices and terms of the KTAL Services offered by KTAL to the Group with the prices and terms of the same or substantially similar services offered by independent third parties to the Group on a regular basis;
- (2) comparing the prices and terms of the HKMC Services offered by the Group to KTAL with the prices and terms of the same or substantially similar services offered by the Group to independent third parties on a regular basis;
- (3) adhering to the relevant internal control policy of the Group on connected transactions in monitoring the prices and terms of the provision of (i) the KTAL Services by KTAL to the Group to ensure that they shall be no less favourable to the Group than those offered by independent third parties to the Group; and (ii) the HKMC Services by the Group to KTAL to ensure that they shall be no less favourable to the Group than those offered by the Group to independent third parties;
- (4) information on all continuing connected transactions carried out by the Group under the Service Agreement will be reported to the management of the Company on a quarterly basis;
- (5) the independent non-executive Directors will review and confirm on an annual basis whether the transactions contemplated under the Service Agreement are (i) in the Group's ordinary and usual course of business; (ii) on normal commercial terms or better to the Group; and (iii) on terms that are fair and reasonable to the Group and in the interests of the Group and the Shareholders as a whole; and

- (6) the auditors of the Company will review the pricing and terms of the transactions contemplated under the Service Agreement and the relevant annual caps of such transactions in compliance with the annual reporting and review requirements under the Listing Rules on an annual basis.

INFORMATION ON KTAL

KTAL is a company incorporated in Hong Kong with limited liability, which is owned by Dr. Tsang, an executive Director as at the date of this announcement, and his spouse in equal shares. KTAL is principally engaged in the provision of medical consultation services.

REASONS FOR AND BENEFITS OF THE SERVICE AGREEMENT

The Group is principally engaged in (i) provision of medical and dental services in Hong Kong; (ii) managing healthcare networks and provision of third party medical network administrator services in Hong Kong; (iii) provision of medical and dental services, as well as hospital management and related services in the People's Republic of China; and (iv) others including leasing of properties.

As one of the conditions precedent to the completion of the Acquisition, HKMC and KTAL entered into the Service Agreement for HKMC to secure the medical services to be provided by Dr. Tsang or any other person or persons who is/are qualified to conduct medical practice in Hong Kong and approved by HKMC (i.e. the Key Individuals), which will save HKMC the effort and time in looking for and securing the appropriate medical practitioners to provide the medical services required. The Board is of the view that it is in the interests of the Group to outsource the recruitment and engagement of medical practitioners to KTAL, which will procure Dr. Tsang (who has already been providing medical services to HKMC for many years) and other Key Individuals to provide the KTAL Services.

The Directors (including the independent non-executive Directors but excluding Dr. Tsang and Mr. Shiu Shu Ming who were appointed as Directors at the meeting of the Board approving the Service Agreement) are of the view that the terms of the Service Agreement are fair and reasonable and the continuing connected transactions contemplated under the Service Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. None of the Directors at the time of the relevant Board resolutions has a material interest in the Service Agreement which required any of the Directors to abstain from voting on the Board resolutions in relation to the Service Agreement.

IMPLICATIONS UNDER THE LISTING RULES

With effect from the Acquisition Completion Date, Dr. Tsang, who holds 50% of the issued share capital of KTAL, has become a director of a number of subsidiaries of the Company and thus a connected person of the Company at the subsidiary level. Accordingly, KTAL, being an associate of Dr. Tsang, has become a connected person of the Company at the subsidiary level since the Acquisition Completion Date. The transactions contemplated under the Service Agreement therefore constituted continuing connected transactions of the Company with connected person at the subsidiary level for the purposes of Chapter 14A of the Listing Rules with effect from the Acquisition Completion Date.

Following the appointment of Dr. Tsang as an executive Director with effect from the date of this announcement, Dr. Tsang and KTAL have become connected persons of the Company at the issuer level for the purposes of Chapter 14A of the Listing Rules with effect from the date of this announcement.

Taking into consideration that the applicable percentage ratios relating to the KTAL Annual Caps exceed 0.1% but are less than 1%, the continuing connected transactions in relation to the provision of the KTAL Services by KTAL to HKMC under the Service Agreement (i) were fully exempt from the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules as at the Acquisition Completion Date; and (ii) are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules with effect from the date of this announcement.

Taking into consideration that the applicable percentage ratios relating to the HKMC Annual Caps exceed 0.1% but are less than 1%, the continuing connected transactions in relation to the provision of the HKMC Services by HKMC to KTAL under the Service Agreement (i) were fully exempt from the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules as at the Acquisition Completion Date; and (ii) are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules with effect from the date of this announcement.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“Acquisition”	the acquisition of the entire issued share capital of Central Medical Holdings Limited by the Group, details of which are set out in the Company's announcements dated 11 July 2022, 15 August 2022 and 26 August 2022
“Acquisition Completion Date”	the date on which completion of the Acquisition took place, i.e. 26 August 2022
“associate”	has the meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Town Health International Medical Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange
“connected person”	has the meaning as ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

“Dr. Tsang”	Dr. Tsang Wah Tak, Kenneth, a director of HKMC and other subsidiaries of the Company as at the Acquisition Completion Date, and an executive Director as at the date of this announcement
“Group”	the Company and its subsidiaries
“HKMC”	Hong Kong Medical Consultants Limited, a company incorporated in Hong Kong with limited liability, which is a wholly-owned subsidiary of the Company as at the date of this announcement
“HKMC Annual Caps”	the maximum aggregate annual transaction values in respect of the continuing connected transactions in relation to the provision of the HKMC Services for each of Period 2022, Year 2023, Year 2024 and Period 2025
“HKMC Services”	has the meaning as ascribed to it under the paragraph headed “Subject matter” in this announcement
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	third party independent of the Company and its connected persons
“Key Individual(s)”	Dr. Tsang (or any other person or persons who is/are qualified to conduct medical practice in Hong Kong and approved by HKMC)
“KTAL”	Dr. Kenneth Tsang and Associates Limited, a company incorporated in Hong Kong with limited liability, which is owned by Dr. Tsang and his spouse in equal shares

“KTAL Annual Caps”	the maximum aggregate annual transaction values in respect of the continuing connected transactions in relation to the provision of the KTAL Services for each of Period 2022, Year 2023, Year 2024 and Period 2025
“KTAL Services”	the medical services to be provided by the Key Individual as a specialist of respiratory medicine or such other services to be provided by the Key Individual as agreed by the parties to the Service Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Period 2022”	the period from 26 August 2022 to 31 December 2022
“Period 2025”	the period from 1 January 2025 to 25 August 2025
“Service Agreement”	the service agreement dated 11 July 2022 and entered into between HKMC and KTAL (as amended and supplemented by the supplemental agreement dated 11 November 2022), in relation to the provision of the KTAL Services and the HKMC Services
“Shareholder(s)”	holder(s) of ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Year 2023”	the year ending 31 December 2023
“Year 2024”	the year ending 31 December 2024
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“%”

per cent.

By Order of the Board
Town Health International Medical Group Limited
Jin Zhaogen
Executive Director and Chief Executive Officer

11 November 2022

As at the date of this announcement, the executive Directors are Mr. Jin Zhaogen (Chief Executive Officer), Ms. Zhao Xiangke (Chief Financial Officer), Dr. Wong Chi Kit Nelson, Dr. Law Kwan Kin, Dr. Wong Chun Wa, Mr. Ng Ting Chi, Ms. Yao Yuan, Ms. Lau Wai Yee, Susanna, Dr. Tsang Wah Tak, Kenneth and Mr. Shiu Shu Ming; the non-executive Directors are Mr. Kong Dechang (Chairman) and Mr. Hou Jun; and the independent non-executive Directors are Mr. Ho Kwok Wah, George, MH, Mr. Yu Xuezhong, Dr. Xu Weiguo, Mr. Chui Tsan Kit and Mr. Han Wenxin.