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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)

**RENEWAL OF ANNUAL CAPS FOR EXISTING
CONTINUING CONNECTED TRANSACTIONS
SUPPLEMENTAL ANNOUNCEMENT**

Reference is made to the announcement (the “**Announcement**”) of the Company dated 16 December 2022 relating to, among other things, the existing continuing connected transactions in relation to the Kanghua Hospital Lease Agreement and the Renkang Hospital Lease Agreement. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

As disclosed in the Announcement, (i) the Company (on behalf of the tenant) and Kanghua Group (as landlord) have agreed on the annual rent payable for each of the three years ending 31 December 2025 under the Kanghua Hospital Lease Agreement; and (ii) the Company (on behalf of the tenant) and Tongli Enterprise (as landlord) have agreed on the annual rent payable for each of the three years ending 31 December 2025 under the Renkang Hospital Lease Agreement. Each of Kanghua Group and Tongli Enterprise is a connected person of the Company. In the Announcement, the Company had classified such transactions (the “**Transactions**”) as continuing connected transactions under Chapter 14A of the Listing Rules on the basis of the annual rent payments for each of the three years ending 31 December 2025.

The Company would like to clarify that the Transactions should be classified as continuing connected transactions under Chapter 14A of the Listing Rules on the basis of the annual variable rent to be recognised under the requirements of IFRS 16 for each of the three years ending 31 December 2025. The relevant accounting treatment is more particularly elaborated below:

- The Group had applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application on 1 January 2019 for the Kanghua Hospital Lease Agreement and the Renkang Hospital Lease Agreement on the basis of a 10-year term. As at 1 January 2019, the Group recognised lease liabilities and measured right-of-use assets (the “**ROU**”) at the carrying amount as if IFRS 16 had been applied since the commencement date of the leases (i.e. 1 January 2016). The ROU is depreciated on a straight-line basis over the lease term (i.e. until the lease term expires on 31 December 2025) based on a pre-determined schedule, which has not been modified since adoption.
- The rent payments under the Kanghua Hospital Lease Agreement and the Renkang Hospital Lease Agreement consist of the following components:
 - (i) *Fixed rent*. On a monthly basis, this is the minimum fixed rent calculated by multiplying the predetermined monthly rent per square metre by the agreed minimum Gross Floor Area (“**GFA**”) committed by the relevant hospital; and
 - (ii) *Variable rent*. On a monthly basis, this is calculated by multiplying the difference between the GFA actually used by the relevant hospital and the agreed minimum GFA committed by the relevant hospital by the monthly rent per square metre. The variable rent is directly charged to profit or loss in the year of which it is incurred.
- As the ROU for the entire term of the leases was retrospectively recognised as at 1 January 2019 and depreciated on a straight-line basis as discussed above, the rent payments after 1 January 2019 would not result in any acquisition or modification of ROU by the Group. Therefore, the Company has not classified the Transactions as a one-off connected transaction for the purpose of Chapter 14A of the Listing Rules.

In accordance with HKEx FAQ 046A-2018, the Company has now classified the Transactions as continuing connected transactions on the basis of the annual variable rent to be recognised under the requirements of IFRS 16 for each of the three years ending 31 December 2025.

The table below sets forth details of the fixed and variable rent recognised by the Group under the Kanghua Hospital Lease Agreement for each of the years since 1 January 2019, and expected to be recognised by the Group for each of the three years ending 31 December 2025.

Year ended/ ending 31 December	Monthly rent per sq.m. (RMB)	Minimum GFA agreed (sq.m.)	GFA used by Kanghua Hospital (sq.m.)	Approximate	Approximate	Rent concession (RMB'000)	Approximate annual total rent payment (RMB'000)
				annual fixed rent recognised/ to be recognised (RMB'000)	annual variable rent recognised/ to be recognised (RMB'000)		
2019	9.00	254,896.14	311,283.99	27,529	6,088	–	33,617
2020	9.63	254,896.14	311,283.99	29,456	6,516	–	35,972
2021	10.30	254,896.14	338,687.88	31,518	10,360	–	41,878
2022	11.03	254,896.14	308,205.97	33,724	5,771	(6,209)	33,286
2023	11.80	254,896.14	338,687.88	36,085	11,874	–	47,958
2024	12.62	254,896.14	338,687.88	38,611	12,680	–	51,291
2025	13.51	254,896.14	338,687.88	41,313	13,595	–	54,908

The table below sets forth details of the fixed and variable rent recognised by the Group under the Renkang Hospital Lease Agreement for each of the years since 1 January 2019, and expected to be recognised by the Group for each of the three years ending 31 December 2025.

Year ended/ ending 31 December	Monthly rent per sq.m. (RMB)	Minimum GFA agreed (sq.m.)	GFA used by Renkang Hospital (sq.m.)	Approximate	Approximate	Rent concession (RMB'000)	Approximate annual total rent payment (RMB'000)
				annual fixed rent recognised/ to be recognised (RMB'000)	annual variable rent recognised/ to be recognised (RMB'000)		
2019	6.00	73,265.62	77,449.70	5,276	300	–	5,576
2020	6.42	73,265.62	77,449.70	5,644	323	–	5,967
2021	6.87	73,265.62	77,449.70	6,039	345	–	6,384
2022	7.35	73,265.62	77,449.70	6,462	301	(1,187)	5,576
2023	7.86	73,265.62	91,750.52	6,915	1,739	–	8,654
2024	8.42	73,265.62	96,437.13	7,399	2,345	–	9,744
2025	9.00	73,265.62	100,688.51	7,917	2,957	–	10,874

Based on the above, the Company has set the annual caps for the variable rent (on an aggregate basis for the Kanghua Hospital Lease Agreement and the Renkang Hospital Lease Agreement) for each of the three years ending 31 December 2025 as below (the “**Annual Caps**”):

Year	Approximate annual variable rent payable by Kanghua Hospital (RMB'000)	Approximate annual variable rent payable by Renkang Hospital (RMB'000)	Approximate total annual rent payable (RMB'000)	Aggregated annual cap (RMB'000)
Ending 31 December 2023	11,874	1,739	13,613	14,000
Ending 31 December 2024	12,680	2,345	15,025	15,500
Ending 31 December 2025	13,595	2,957	16,552	17,000

As the applicable percentage ratios as represented by the Annual Caps are more than 0.1% but less than 5%, the Transactions are only subject to announcement, reporting and annual review requirements but are exempt from the circular (including independent financial advice) and shareholders’ approval requirements under Chapter 14A of the Listing Rules. Accordingly, certain Listing Rules compliance requirements as disclosed in the Announcement, including the appointment of independent financial adviser, holding of the EGM to seek independent shareholders’ approval and preparation and despatch of the Circular, are no longer relevant.

The Company has discussed the relevant accounting treatment with the audit committee of the board of directors and the auditors. Based on such discussion, the Company does not expect that there will be changes or modifications to the ROU to be recognised by the Group for each of the three years ending 31 December 2025.

Save as discussed above and with suitable modifications in light of the present treatment of the lease payments under the Kanghua Hospital Lease Agreement and the Renkang Hospital Lease Agreement for each of the three years ending 31 December 2025 as continuing connected transactions under Chapter 14A of the Listing Rules on the basis of variable rent to be recognised under the requirements of IFRS 16, all the information in the Announcement remains unchanged.

By order of the Board
Guangdong Kanghua Healthcare Co., Ltd.*
WANG Junyang
Chairman

Hong Kong, 6 February 2023

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 (*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*