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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)**

## **DISCLOSEABLE AND CONNECTED TRANSACTION IN RESPECT OF THE ACQUISITION OF MINORITY INTEREST IN A SUBSIDIARY**

### **THE ACQUISITION AGREEMENT**

The Board is pleased to announce that on 5 May 2023 (after trading hours), the Company entered into the Acquisition Agreement with the Vendor (being the 40% shareholder of Kangxin Hospital as of the date of this announcement), pursuant to which the Company has agreed to acquire the Equity Interest (representing 40% interest in Kangxin Hospital as of the date of this announcement) from the Vendor at the Consideration of RMB108 million. Upon Completion, Kangxin Hospital will become a wholly-owned subsidiary of the Company.

### **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios in respect of the Acquisition exceeds 5% but all are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the announcement requirement under Chapter 14 of the Listing Rules. As the Vendor is a substantial shareholder of a subsidiary of the Company, the Vendor is a connected person of the Company at the subsidiary level. As such, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Since (i) the Vendor is a connected person of the Company at the subsidiary level; (ii) the Board has approved the Acquisition; and (iii) the independent non-executive Directors have confirmed that the terms of the Acquisition are fair and reasonable, and that the Acquisition is on normal commercial terms and in the interests of the Company and its shareholders as a whole, the Acquisition is subject to the announcement requirement but is exempt from the circular and independent shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

## **INTRODUCTION**

On 5 May 2023 (after trading hours), the Company entered into the Acquisition Agreement with the Vendor (being the 40% shareholder of Kangxin Hospital as of the date of this announcement), pursuant to which the Company has agreed to acquire the Equity Interest (representing 40% interest in Kangxin Hospital as of the date of this announcement) from the Vendor for the Consideration of RMB108 million.

Upon Completion, Kangxin Hospital will become a wholly-owned subsidiary of the Company.

## **PRINCIPAL TERMS OF THE ACQUISITION AGREEMENT**

### **1. Date**

5 May 2023

### **2. Parties**

*Transferee:* The Company

*Transferor:* the Vendor (which holds 40% equity interest in Kangxin Hospital as at the date of this announcement)

*Target company:* Kangxin Hospital (which is owned as to 60% by the Company and 40% by the Vendor as at the date of this announcement)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are Independent Third Parties.

### **3. Subject matter**

The Company has agreed to purchase, and the Vendor has agreed to sell, the Equity Interest for the Consideration of RMB108 million, which corresponds to the amount of registered capital contributed by the Vendor in Kangxin Hospital.

The following table illustrates the changes in the amount of registered capital contribution, and equity interest held, by the respective shareholders of Kangxin Hospital immediately before and after the Completion:

Shareholders	Immediately before Completion		Immediately after Completion	
	Contribution to the registered capital (RMB' million)	% of equity interest	Contribution to the registered capital (RMB' million)	% of equity interest
The Company	162	60%	270	100%
The Vendor	108	40%	–	–
Total	<u>270</u>	<u>100%</u>	<u>270</u>	<u>100%</u>

#### 4. Consideration

The Consideration of RMB108 million (which corresponds to the amount of registered capital of Kangxin Hospital contributed by the Vendor) was determined after arm's length negotiations between the Company and the Vendor. The Company has primarily taken into account the financial position and operating prospects of Kangxin Hospital and the management arrangement with Silver Mountain (details of which are set out in the Management Arrangement Announcement). In particular, Kangxin Hospital is in a net liability position as at the date of the announcement. Based on the latest unaudited management account available to the Board, as at 31 March 2023, Kangxin Hospital had a net liability position of RMB217.4 million, including shareholder loans from the Company (through Kanghua Hospital) of RMB518.5 million. Assuming the shareholder loans from the Company were repaid, Kangxin Hospital would be in a net asset position of RMB301.1 million. Furthermore, with reference to a valuation carried out by an independent valuer, as at 31 December 2022, the land and buildings of Kangxin Hospital had a valuation exceeding their carrying value by approximately RMB90.9 million. The Company therefore considers that, as a whole, the Consideration of RMB108 million (which corresponds to the amount of registered capital of Kangxin Hospital contributed by the Vendor) for the Equity Interest is fair and reasonable, notwithstanding that Kangxin Hospital has a net liability position.

## **5. Conditions precedent**

The Acquisition shall be conditional upon, among other things, the fulfilment (or waiver by the Company) of the conditions precedent summarised below:

- (a) the Equity Interest is free from any encumbrances and can be effectively transferred;
- (b) there exists no regulatory impediment to the transaction and no pending or potential litigation that may have a material adverse impact on the transaction; and
- (c) each party having obtained the necessary approvals for the execution and performance of the Acquisition Agreement.

In the event that the Company reasonably concludes that the Vendor and Kangxin Hospital are not able to comply with or fully satisfy the conditions precedent as set out in the Acquisition Agreement, the Company shall have the right to terminate the Acquisition Agreement.

## **6. Completion**

Within 30 business days from the date of the Acquisition Agreement, the Vendor and Kangxin Hospital shall complete the registration procedures for the transfer of the Equity Interest from the Vendor to the Company with the relevant industrial and commercial administration authority in the PRC.

## **7. Terms of payment**

The Consideration shall be payable in two instalments: (i) RMB16.2 million, representing approximately 15% of the Consideration, within 10 business days from the date of the Acquisition Agreement; and (ii) RMB91.8 million, representing approximately 85% of the Consideration, within 60 days from Completion (i.e. 60 days from the date of completion of registration of the transfer of the Equity Interest with the relevant industrial and commercial administration authority in the PRC).

Out of the Consideration, approximately RMB50.0 million will be funded by the portion of the IPO Net Proceeds that was allocated for the purpose of expanding the Group's healthcare operations in the PRC, and approximately RMB58.0 million will be funded by the internal financial resources of the Group.

## INFORMATION ON THE PARTIES

### Kangxin Hospital

Kangxin Hospital is a limited liability company established in the PRC on 10 June 2014. As at the date of this announcement, Kangxin Hospital is a non wholly-owned subsidiary of the Company held as to 60% and 40% by the Company and the Vendor respectively.

Kangxin Hospital is a specialty hospital in cardiovascular diseases located in Chongqing, the PRC. Kangxin Hospital commenced providing outpatient services and inpatient services in April 2017 and May 2017, respectively. In 2022, it treated more than 30,000 outpatients and emergency outpatient visits and 2,000 inpatients and performed close to 700 cardiovascular surgeries. It also became a designated hospital for medical insurance in Chongqing in November 2017.

The following table sets forth the key financial information of Kangxin Hospital as extracted from its unaudited management accounts prepared in accordance with IFRSs for the financial years ended 31 December 2021 and 31 December 2022, respectively:

	<b>For the year ended 31 December 2022</b> <i>(RMB'000)</i>	<b>For the year ended 31 December 2021</b> <i>(RMB'000)</i>
Revenue	53,583	37,787
Cost of revenue	(89,016)	(81,051)
Other income and expenses	(61,818)	(45,585)
Net loss before taxation	(97,251)	(88,849)
Net loss after taxation	(99,153)	(88,792)
	<b>As of 31 December 2022</b> <i>(RMB'000)</i>	<b>As of 31 December 2021</b> <i>(RMB'000)</i>
Total assets	749,532	680,981
Total liabilities	(884,481)	(716,777)
Net liabilities	(134,949)	(35,796)

### The Vendor

The Vendor is a limited liability company established in the PRC on 26 February 2013. To the best of the Company's knowledge, the Vendor is the 40% shareholder of Kangxin Hospital as of the date of this announcement. The Vendor is ultimately owned as to (i) 80% by Mr. Chen Yangyong (陳楊永), an entrepreneur with multiple business interests, primarily in real estate and metal hardware; and (ii) 20% by Mr. Chen Jianping (陳見平), an entrepreneur primarily engaged in the furniture business. Mr. Chen Yangyong (陳楊永) and Mr. Chen Jianping (陳見平) are private investors seeking opportunities in, among other things, the healthcare industry.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are Independent Third Parties.

## **The Company**

The Company is an investment holding company and its subsidiaries (collectively the “**Group**”) is principally engaged in the in the provision of hospital services, provision of rehabilitation and other healthcare services and provision of elderly healthcare services in the PRC.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Board considers that the Acquisition will enable the Group to gain full equity control over Kangxin Hospital and facilitate its negotiation and implementation of the management arrangement with Silver Mountain (details of which are set out in the Management Arrangement Announcement). In particular, the Vendor, being primarily interested in healthcare investments, has indicated to the Company that it would not be interested in holding any interest in the property company as a result of the demerger as described in the Management Arrangement Announcement. The Board considers that it would be in the Company's interest to acquire the Equity Interest as opposed to the Vendor selling the Equity Interest to another party, which may give rise to uncertainty in shareholder dynamics. The Board believes that this will put the Group in a more favorable position to maximise the potential of the management arrangement with Silver Mountain.

The Directors (including the independent non-executive Directors) considers that the terms of the Acquisition Agreement were arrived at after arm's length negotiations between the parties and are on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole. None of the Directors has a material interest in the Acquisition, or was required to abstain from voting on the relevant resolutions of the Board approving the Acquisition.

## **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios in respect of the Acquisition exceeds 5% but all are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the announcement requirement under Chapter 14 of the Listing Rules. The Vendor is a substantial shareholder of a subsidiary of the Company, and therefore a connected person of the Company at the subsidiary level. As such, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Since (i) the Vendor is a connected person of the Company at the subsidiary level; (ii) the Board has approved the Acquisition; and (iii) the independent non-executive Directors have confirmed that the terms of the Acquisition are fair and reasonable, and that the Acquisition is on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Acquisition is subject to the announcement requirement but is exempt from the circular and independent shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

## DEFINITIONS

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

Acquisition	the acquisition of the Equity Interest by the Company from the Vendor pursuant to the Acquisition Agreement
Acquisition Agreement	the equity transfer agreement in respect of the transfer of the Equity Interest from the Vendor to the Company dated 5 May 2023
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)
Completion	completion of the registration procedures for the transfer of the Equity Interest from the Vendor to the Company with the relevant industrial and commercial administration authority in the PRC
connected person	has the meaning ascribed to it in the Listing Rules
Consideration	RMB108 million, being the consideration for the Acquisition of the Equity Interest by the Company from the Vendor
Directors	the director(s) of the Company
Equity Interest	40% of the equity interest in Kangxin Hospital held by the Vendor as of the date of this announcement
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

IPO Net Proceeds	the net proceeds received by the Company from the initial public offering of its H Shares on the Stock Exchange on 8 November 2016
Kanghua Hospital	Dongguan Kanghua Hospital Co., Ltd. (東莞康華醫院有限公司), a limited liability company established in the PRC on 15 September 2005 and a wholly-owned subsidiary of the Company
Kangxin Hospital	Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd.* (重慶康華眾聯心血管病醫院有限公司), a limited liability company established in the PRC on 10 June 2014 and held as to 60% by the Company and as to 40% by the Vendor as at the date of this announcement
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Management Arrangement Announcement	the announcement of the Company dated 23 May 2022 in relation to the management arrangement with Silver Mountain in respect of Kangxin Hospital's operations
PRC	the People's Republic of China which, for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
RMB	Renminbi, 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) in the share capital of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
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



Vendor 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, which is, to the best of the Company's knowledge, ultimately held as to (i) 80% by Mr. Chen Yangyong (陳楊永); and (ii) 20% by Mr. Chen Jianping (陳見平)

% per cent

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

Hong Kong, 5 May 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*