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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 TRANSACTION
ACQUISITION OF 70% EQUITY INTEREST IN THE TARGET COMPANY,
WHICH OPERATES HAEMODIALYSIS OUTPATIENT CENTRES IN THE PRC

THE ACQUISITION AGREEMENT

The Board announces that on 15 December 2023, the Company entered into the Acquisition Agreement, pursuant to which the Company has agreed to acquire 70% equity interest of the Target Company from the Vendor for a total consideration of RMB7.7 million. The Target Company, through its subsidiaries, is primarily engaged in the operation of haemodialysis outpatient centres in the PRC.

Upon Completion, the Target Company will become a non-wholly-owned subsidiary of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition Agreement and the transactions contemplated thereunder exceeds 5% but is less than 25%, it constitutes a discloseable transaction of the Company under the Listing Rules and is accordingly subject to the announcement requirement under Chapter 14 of the Listing Rules.

None of the Directors was deemed to have material interests in the Acquisition Agreement and the transactions contemplated thereunder and thus no Director was required to abstain from voting on the relevant resolution(s) at the board meeting.

As Completion is subject to the fulfilment of a number of condition(s) precedent as set out in the Acquisition Agreement, the transaction may or may not proceed. Shareholders and public investors should exercise caution when dealing in the securities of the Company.

INTRODUCTION

On 15 December 2023, the Company entered into the Acquisition Agreement with, among others, the Vendor, who holds 85% equity interest in the Target Company as of the date of this announcement, pursuant to which the Company has agreed to acquire the Equity Interest (i.e. 70% equity interest in the Target Company) from the Vendor for a total consideration of RMB7.7 million subject to the terms and conditions of the Acquisition Agreement.

Upon Completion, the Target Company will become a non-wholly-owned subsidiary of the Company and its financial results will be consolidated into those of the Group.

THE ACQUISITION AGREEMENT

The principal terms of the Acquisition Agreement are summarised below.

1. Date

15 December 2023

2. Parties

Purchaser:	The Company
Vendor:	The Vendor, namely Dongguan YouWang Enterprise Investment Co., Ltd.* (東莞市優旺實業投資有限公司), who holds 85% equity interest in the Target Company as of the date of this announcement
Guarantor:	Mr. Ye Junqiang (葉俊強), who is the controlling shareholder holding the entire equity interest in the Vendor as of the date of this announcement
Target Company:	The Target Company, namely Dongguan Kanghua Haemodialysis Healthcare Investment Management Co., Ltd.* (東莞康華血液透析醫療投資管理有限公司)

The other shareholder of the Target Company: Guangzhou Kanghe, namely Guangzhou Kanghe Investment Partnership (Limited Partnership)* (廣州康合投資合夥企業(有限合夥)), who holds 15% equity interest in the Target Company as of the date of this announcement

To the best of knowledge, information and belief of the Directors having made all reasonable enquiries, each of the Vendor, the Guarantor and Guangzhou Kanghe is an Independent Third Party as of the date of this announcement.

3. Subject Matter

The Company has agreed to acquire the Equity Interest (i.e. 70% equity interest in the Target Company) from the Vendor subject to the terms and conditions of the Acquisition Agreement. Upon Completion, the Company will hold 70% equity interest in the Target Company.

The following table illustrates the changes in the registered capital (and the contribution to the registered capital made by respective shareholders) and percentage equity interest held by the respective shareholders of the Target Company immediately before and after Completion:

Shareholders	Immediately before Completion		Immediately after Completion	
	Contribution in the registered capital (RMB'000)	% of equity interest	Contribution in the registered capital (RMB'000)	% of equity interest
The Company	–	–	7,700	70%
The Vendor	9,350	85%	1,650	15%
Guangzhou Kanghe	1,650	15%	1,650	15%
Total	<u>11,000</u>	<u>100%</u>	<u>11,000</u>	<u>100%</u>

4. Consideration

The total consideration for the Equity Interest is RMB7.7 million, which was determined after arm's length negotiations among the parties with reference to the appraised value of the Target Group as at 31 October 2023 (the "Valuation Benchmark Date") as determined by the Valuer using the income approach (please refer to the section headed "Profit Forecast Under the Valuation Report" in this announcement for further details of the methodology and key assumptions used). The Company expects to satisfy the consideration with the internal resources of the Group.

5. Guarantee

The Guarantor, being the controlling shareholder holding the entire equity interest in the Vendor as of the date of this announcement, has agreed to procure the performance of the obligations of the Vendor and the Target Company under the Acquisition Agreement, and be subject to joint and several liability.

6. Non-compete undertaking in favour of the Company

Unless the Company agrees in writing, each of the Vendor, the Guarantor and Guangzhou Kanghe shall not, directly or indirectly, operate, engage or invest in, whether for itself/himself or others, any business that competes with the business of the Group.

7. Right of first refusal

The Company shall have a right of first refusal over the remaining equity interests in the Target Company held by the Vendor and Guangzhou Kanghe.

Unless the Company agrees in writing, each of the Vendor and Guangzhou Kanghe shall not, directly or indirectly, transfer his/its interest in the Target Company to any third party that competes or may compete with the Target Group and/or the Group.

8. Shareholder's loan provided by the Vendor

As at the Valuation Benchmark Date, the Vendor had provided a shareholder's loan of approximately RMB203.75 million to the Target Company. The Vendor had agreed that it would not require repayment of such shareholder's loan after Completion and would continue to provide such shareholder's loan for the benefit of the Target Group until the Target Company has sufficient cash resources and the board of directors of the Target Company considers appropriate to repay such shareholder's loan.

9. Financial assistance by the Company after Completion

With a view to supporting the operations of the Target Group, after Completion, the Target Company may request the Company to provide financial assistance of up to RMB100 million, subject to the approval and consent of the Company and compliance with all applicable laws and regulations (including the Listing Rules, if relevant). The terms of the financial assistance including loan amount, loan term and interest rate will be agreed based on normal commercial terms and subject to definitive agreement(s) to be entered into.

10. Conditions precedent

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

- (a) the Equity Interest being free from any encumbrances and can be effectively transferred as contemplated;
- (b) there exists no regulatory or legal impediment to the transaction contemplated or any other legal actions or proceedings that may have a material adverse impact on the transaction;
- (c) each party having obtained the necessary approvals for the execution and performance of the Acquisition Agreement;
- (d) the Company having been satisfied to the changes/amendments to be made to the constitutional documents of the Target Company;
- (e) the Target Group being in possession of the relevant licenses, qualifications and certificates and such licenses, qualifications and certificates having passed annual inspection;
- (f) the representations and warranties given by each of the Vendor, Mr. Ye Junqiang and Guangzhou Kanghe in the Acquisition Agreement remaining true, accurate and complete in all respects, and each of Vendor, Mr. Ye Junqiang and Guangzhou Kanghe having complied with its/his obligations under the Acquisition Agreement;
- (g) the Company having received to its satisfaction the valuation report in respect of the Target Group issued by the Valuer;
- (h) the Company having completed to its satisfaction due diligence on the Target Group and received to its satisfaction the legal due diligence report in respect of the Target Group issued by its PRC Legal Advisers; and
- (i) from the date of the Acquisition Agreement to, and including, the date of Completion, there exists no circumstances that would have a material adverse impact on the transaction.

11. Completion

Completion shall take place on the next business date after the Target Company has completed the necessary registration and/or filings of the transfer of the Equity Interest from the Vendor to the Company with the relevant PRC authority. On Completion, the control and management of the Target Group shall be transferred to the Company. The Target Company will become a non-wholly-owned subsidiary of the Company and its financial results will be consolidated into those of the Group.

12. Terms of payment

The Company shall pay to the Vendor the consideration of RMB7.7 million in cash in two instalments:

Instalment	Amount	Timing of payment
1st Instalment	RMB2.31 million	Within 5 business days from the signing of the Acquisition Agreement
2nd Instalment	RMB5.39 million	On the date of Completion

INFORMATION ON THE PARTIES

The Target Group

General information of the Target Group

The Target Company is a limited liability company established in the PRC on 24 February 2016. The Target Company, through its subsidiaries, is principally engaged in the operation of haemodialysis outpatient centres in the PRC. The Target Group's first outpatient centre commenced operation in 2016. As of the date of this announcement, the Target Group operates 13 haemodialysis centres, located in Guangzhou (3), Chengdu (3), Shenzhen (1), Foshan (1), Zhongshan (1), Zhuhai (1), Yangjiang (1), Jieyang (1) and Jiangmen (1), serving more than 700 haemodialysis patients. In 2022, the Target Group had performed more than 160,000 (例次) haemodialysis operations. The Target Group has introduced advanced concepts and technologies from haemodialysis outpatient centres in Singapore and implemented high-quality dialysis and refined chronic disease management. The Target Group is a pioneer in introducing "harmless dialysis" ("無傷害透析"), which is a protocol significantly more advanced than the prevalent standard in the PRC and has significantly improved the life span and quality of life of kidney patients.

The particulars of subsidiaries of the Target Group are set out in the table below:

No.	Entity	Principal business	Percentage equity interest attributable to the Target Group	Date of establishment	Commencement of operation
1.	Guangzhou Kangmin Haemodialysis Co., Ltd. * (廣州康民血液透析所有限公司)	Haemodialysis outpatient centre	100%	20 June 2016	December 2016
2.	Shenzhen Kangcheng Haemodialysis Centre * (深圳康城血液透析中心)	Haemodialysis outpatient centre	100%	12 January 2017	March 2019
3.	Foshan Kangcheng Haemodialysis Co., Ltd.* (佛山市康城血液透析所有限公司)	Haemodialysis outpatient centre	100%	15 March 2017	December 2022
4.	Guangzhou Chengguang Haemodialysis Centre Co., Ltd.* (廣州城光血液透析中心有限公司)	Haemodialysis outpatient centre	100%	4 July 2017	March 2017 ^{Note}
5.	Guangzhou Kangpu Haemodialysis Centre Co., Ltd.* (廣州康圃血液透析中心有限公司)	Haemodialysis outpatient centre	100%	4 July 2017	June 2017 ^{Note}
6.	Zhongshan Kangcheng Haemodialysis Centre Co., Ltd.* (中山康城血液透析中心有限公司)	Haemodialysis outpatient centre	100%	18 September 2017	Not yet commenced operation
7.	Jieyang Kangcheng Haemodialysis Co., Ltd.* (揭陽康城血液透析有限公司)	Haemodialysis outpatient centre	100%	21 March 2018	July 2021

No.	Entity	Principal business	Percentage equity interest attributable to the Target Group	Date of establishment	Commencement of operation
8.	Yangjiang Jiangcheng Kangyi Haemodialysis Co., Ltd.* (陽江市江城區康怡血液透析有限公司)	Haemodialysis outpatient centre	100%	3 April 2018	July 2020
9.	Jiangmen Kangcheng Haemodialysis Centre Co., Ltd.* (江門康城血液透析中心有限公司)	Haemodialysis outpatient centre	100%	8 May 2018	July 2023
10.	Zhuhai Kangcheng Haemodialysis Co., Ltd.* (珠海康城血液透析有限公司)	Haemodialysis outpatient centre	100%	28 August 2018	August 2021
11.	Chengdu Kangmin Haemodialysis Centre Co., Ltd.* (成都康民血液透析中心有限公司)	Haemodialysis outpatient centre	100%	13 September 2018	September 2019
12.	Chengdu Kangcheng Haemodialysis Centre Co., Ltd.* (成都康城血液透析中心有限公司)	Haemodialysis outpatient centre	100%	21 December 2018	March 2021
13.	Chengdu Kangyi Haemodialysis Centre Co., Ltd.* (成都康怡血液透析中心有限公司)	Haemodialysis outpatient centre	100%	25 December 2018	March 2020

Note: the operations of this entity were initially carried out by a branch of Guangzhou Kangmin Haemodialysis Co., Ltd.* (廣州康民血液透析所有限公司) (i.e. entity no. 1 in the table). This entity was established to undertake such operations to comply with a change in regulations, which requires the operations to be carried out by a separate legal entity.

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

Financial information of the Target Group

The following is the key financial information of the Target Group extracted from its unaudited consolidated management accounts prepared in accordance with IFRS for the financial years/period indicated:

	For the year ended 31 December		For the ten months ended 31 October
	2021	2022	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	29,897	51,002	49,558
Net loss before and after taxation	<u>(29,103)</u>	<u>(24,822)</u>	<u>(22,310)</u>
	As of 31 December		As of 31 October
	2021	2022	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Current assets	16,956	26,647	26,259
Non-current assets	<u>74,151</u>	<u>68,845</u>	<u>60,804</u>
Total assets	<u>91,107</u>	<u>95,492</u>	<u>87,063</u>
Shareholder's loan	153,050	184,258	203,748
Other current liabilities	<u>15,277</u>	<u>17,763</u>	<u>18,273</u>
Total current liabilities	168,327	202,021	222,021
Non-current liabilities	<u>40,632</u>	<u>36,143</u>	<u>30,026</u>
Total liabilities	<u>208,959</u>	<u>238,164</u>	<u>252,047</u>
Net liabilities	<u>(117,852)</u>	<u>(142,674)</u>	<u>(164,984)</u>

Upon Completion, it is expected that the financial results of the Target Group will be consolidated into those of the Group.

The Vendor and the Guarantor

The Vendor is a limited liability company established in the PRC on 26 May 2017 owned as to 100% the Guarantor as of the date of this announcement. The Guarantor is a private investor in the PRC.

The Vendor is primarily engaged in investment holding in the PRC and holds 85% equity interest in the Target Company as of the date of this announcement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and the Guarantor are Independent Third Parties as of the date of this announcement.

Guangzhou Kanghe

Guangzhou Kanghe is a limited liability partnership established in the PRC on 19 December 2019, with Mr. Sun Yuanfang (孫遠方) as the general partner and Mr. Xhang Yan (張岩) and Ms. Wang Yurong (王玉榮) as limited partners, and each of the partners holding 33.3% partnership interest, as of the date of this announcement. Guangzhou Kanghe is primarily engaged in investment holding in the PRC. Guangzhou Kanghe holds 15% equity interest in the Target Company as of the date of this announcement and will continue to hold 15% equity interest in the Target Company upon Completion.

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

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.

REASONS AND BENEFITS OF THE TRANSACTION

The Target Group is engaged in the operation of haemodialysis centres, which provide vital and life-saving services to patients with chronic kidney diseases. One of the founders of the Target Company was a senior market research and development personnel at Kanghua Hospital, and Ms. Wang Yurong (王玉榮), one of the limited partners of Guangzhou Kanghe (which holds 15% in the Target Company), was a senior nurse of Kanghua Hospital responsible for haemodialysis related services and management. On the backdrop of such relationships, the Group has always had a close collaboration with the Target Group, including frequent sharing of resources and expertise and business referrals in different regions. The Company authorised the Target Group to use the brand name "Kanghua Sunshine", which has enabled the Target Group to accelerate its market position during the development stage.

The Board considers that the acquisition of the Target Company is in line with the Group's strategy of expanding its healthcare services portfolio and enhancing its market position in the PRC. The Board believes that it will bring the following benefits to the Company and its shareholders:

- The demand for haemodialysis services in the PRC is expected to continue to grow in the future, driven by the ageing population, the increasing prevalence of diabetes and hypertension, and the limited availability of kidney transplants. The availability and quality of haemodialysis services in the PRC vary depending on whether they are provided by public or private sector providers. Most patients have historically relied on public hospitals for haemodialysis services, as they are subsidised by the government. However, public hospitals face certain limitations, such as insufficient capacity, long waiting times, overcrowding and lack of personalised care. As people's income and expectation for quality services increase, patients are seeking alternative options in the private sector, where they can enjoy more convenience, flexibility, and personalised care. It is expected that the proportion of patients opting for private sector providers to undergo haemodialysis-related treatments in the PRC will continue to increase. The Target Group has a network of 13 haemodialysis centres in the PRC, serving over 700 patients as of the date of this announcement. The Target Group has a strong recurring patient flow and income, as haemodialysis is typically not a one-off treatment and requires ongoing and regular sessions. The Target Group also plans to increase its service capacity, which will further expand its revenue base.
- The Target Group's geographical presence aligns with the Group's strategy of expanding and promoting the "Kanghua" brand in the Greater Bay Area. The Target Group operates in major cities outside of Dongguan, where Kanghua Hospital is located. Acquiring the Target Group can strengthen the Group's network and visibility in the region.
- The acquisition will create synergies and economies of scale for the Group and the Target Group, as they can leverage on each other's network, resources, expertise, and reputation in the healthcare industry. The Company can provide the Target Company with access to its medical staff, equipment, supplies, management, and quality control systems, as well as its existing and potential customers. The Target Group can also benefit from the Company's financial support, capital markets platform, and strategic guidance. The Company expects that the acquisition will enhance the profitability and efficiency of the Target Group, which is currently loss-making, and generate positive returns for the Company and the Shareholders in the long term.

The Company has engaged its PRC Legal Advisers, namely Commerce & Finance Law Offices, to conduct legal due diligence on the Target Group. The Directors have reviewed the report and are satisfied that there are no material issues regarding the Target Group that need to be reported.

In view of the loss making position of the Target Group, the Board currently expects that financial assistance of up to RMB100 million may be required from the Group (see also “*Acquisition Agreement – 9. Financial assistance by the Company after Completion*” above), which will primarily be used: (i) to support the ongoing operations of the Target Group; (ii) for the capital expenditure of medical equipment and expansion plans (if any); and/or (iii) for the repayment of debt obligations of the Target Group as and when the board of directors of the Target Company considers appropriate.

Based on the above, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition Agreement (including the Consideration) are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition Agreement is more than 5% but less than 25%, the transaction constitutes a discloseable transaction for the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

PROFIT FORECAST UNDER THE VALUATION REPORT

Of the three generally accepted valuation approaches considered, namely the market approach, the cost approach and the income approach, the income approach was selected for the purpose of valuation of the Target Group as such approach estimates the Target Group’s future economic benefits and discounts such benefits to their present value using an appropriate discount rate for all risks associated with realising such benefits. For completeness, the market approach was not used because there is limited information on similar assets in the market for comparison purpose, and the cost approach was not used because such approach is generally not appropriate in estimating the value in use of intangible assets.

Given that the valuation on the Target Group was prepared by the Valuer based on the income approach, the valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. Accordingly, the requirements under Rules 14.60A and 14.62 of the Listing Rules apply.

The Board is satisfied that (i) the Valuer, namely Vincorn Consulting and Appraisal Limited, is an independent professional party engaged by the Company; (ii) the Valuer has the necessary qualifications to perform the valuation on the Target Group and also has appropriate experience in carrying out similar valuations; (iii) the scope of work carried out by the Valuer is appropriate for the present engagement; and (iv) the valuation assumptions and methodologies adopted by the Valuer for the present engagement are fair and reasonable.

The underlying forecast has been prepared based on the unaudited consolidated management accounts of the Target Group for the years ended 31 December 2019, 2020, 2021 and 2022, and ten months ended 31 October 2023, and the management’s forecast of the results and cash flow of the Target Group for the two months ending 31 December 2023, and seven years ending 31 December 2030.

In the course of the Valuer's work, it has carried out the following processes to evaluate the information provided by the management of the Company:

- discussed with the management and obtained relevant information in respect of the Target Group;
- examined the relevant basis and assumptions of the financial information in respect of the Target Group provided by the management;
- conducted appropriate research to obtain sufficient market data and statistical figures and prepared the valuation based on generally accepted valuation procedures and practices; and
- arrived at its valuation opinion based on the relevant assumptions and information provided by the management.

Except for the standard and customary limitations inherent in this type of valuation, the Valuer had no reason to restrict or qualify its valuation opinion.

Principal assumptions and key inputs

The principal assumptions and key inputs relating to the valuation of the Target Group include the following:

- (a) no unforeseeable material adverse change to or affecting the operations of the Target Group;
- (b) the Target Group will be able to operate on a going-concern basis and all licenses and permits that are essential for the operations of the Target Group have been obtained and will be renewed upon expiry;
- (c) no material delay to the development strategies of the Target Group, including expansion of operational capacity of each haemodialysis outpatient centre and purchase of machinery and equipment for the purpose of increasing service capacity;
- (d) the Vendor will not require repayment of its shareholder's loan after the completion of the Acquisition and will continue to provide such shareholder's loan for the benefit of the Target Group until the Target Company has sufficient cash resources and the board of directors of the Target Company considers appropriate to repay such shareholder's loan (the Vendor has agreed to the foregoing under the Acquisition Agreement). The Target Group has no plans to raise additional funds through bank loans or seek other source of funding other than from the shareholders. Currently, the shareholder's loan advanced by the Vendor is interest free and will continue to be interest free after the Acquisition;

- (e) the Company will be in a position provide the necessary financial assistance to the Target Group of up to RMB100 million and the Company will continue to provide capital markets platform resources and strategic guidance to the Target Group;
- (f) the underlying forecast was based on a seven-year financial projection approved by the management. The management is of the opinion a longer projection of seven years is a realistic reflection of the value of the business as most centres are expected to mature in their operations during that time frame and is a more appropriate reflection of the nature of the healthcare related business which requires a longer period to ramp up, generate positive return on investment (consistent with the management's experience with the Group's owned hospitals) and potential future cash flows from legislative, regulatory and structural changes in the industry;
- (g) the turnover day of account receivables and account payables is 90 days and the turnover day of inventory is 19 days, based on past experience and relevant existing policies;
- (h) all of the operating centres of the Target Group will not likely require any significant alternations or refurbishments during the seven-year forecast period, and the Target Group does not expect to open additional centres during the same period; and
- (i) key inputs for the value-in-use calculation include:
 - (i) for the seven-year forecast period, the annual growth rate of revenue of the Target Group ranging from 7.29%–31.91% and the annual growth rate for the gross margin of the Target Group ranging from 12.01%–31.33%, which were determined by the management based on past experience and its expectation for market development;
 - (ii) discount rate of 10.72% estimated using the weighted average cost of capital, which was calculated with reference to public market data including risk free rate, market return, beta of comparable public companies etc. and the specific risk of the business;
 - (iii) a discount for lack of marketability of 15.8% adopted with reference to the research of "Stout Restricted Stock Study Companion Guide 2021 Edition"; and
 - (iv) an estimated perpetual growth rate beyond the seven-year forecast period of 3%, after making reference to long term inflation rate of the PRC.

Confirmation

The Reporting Accountants (as defined below) have been engaged to report on the calculations of the discounted cash flows used in the valuation prepared by the Valuer. The Reporting Accountants have reported that so far as the calculations are concerned, the discounted cash flows have been properly compiled in all material aspects in accordance with the bases and assumptions as set out in the valuation. The text of the report issued by the Reporting Accountants in relation to the calculations of the discounted cash flows is set out in Appendix I to this announcement for the purpose under Rule 14.62(2) of the Listing Rules.

A letter from the Board, confirming that the profit forecast in the valuation has been made after due and careful enquiry by the Board, is set out in Appendix II to this announcement.

Experts

The following are the qualifications of experts who have provided opinions and/or suggestions contained in this announcement:

Name	Qualification
Vincorn Consulting and Appraisal Limited	Independent valuation firm
Baker Tilly Hong Kong Limited (the “ Reporting Accountants ”)	Certified Public Accountants

Each of the experts mentioned above has given and none of the experts has withdrawn its written consent to the issue of this announcement with the inclusion of its letters, reports and/or opinions and the references to its names included herein in the form and context in which it is included.

As at the date of this announcement, none of the experts nor their respective subsidiaries mentioned above held any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the date of this announcement, as far as the Directors are aware, none of the experts nor their respective subsidiaries mentioned above had, or had had, any direct or indirect interest in any material assets which have been since 31 December 2022 (being the date to which the latest published audited consolidated accounts of the Company were made up) acquired, or disposed of by, or leased to any member of the Group, or are proposed to be acquired, or disposed of by, or leased to any member of the Group.

As Completion is subject to the fulfilment of a number of condition(s) precedent as set out in the Acquisition Agreement, the transaction may or may not proceed. Shareholders and investors should exercise caution when dealing in the Shares of the Company.

DEFINITIONS

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

Acquisition Agreement	the agreement dated 15 December 2023 entered into by, among others, the Company and the Vendor with respect to the Equity Interest, terms of which have been summarised in the section headed “the Acquisition Agreement” of this announcement
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	the completion of the acquisition of the Equity Interest by the Company from the Vendor according to the Acquisition Agreement
Directors	the director(s) of the Company
Equity Interest	70% equity interest in the Target Company, which is held by the Vendor as at the date of this announcement
Group	the Company and its subsidiaries
Guangzhou Kanghe	Guangzhou Kanghe Investment Partnership (Limited Partnership)* (廣州康合投資合夥企業(有限合夥)), a limited liability partnership established in the PRC on 19 December 2019, with Mr. Sun Yuanfang (孫遠方) as the general partner and, Mr. Xhang Yan (張岩) and Ms. Wang Yurong (王玉榮) as the limited partners, each of the partners holding 33.3% partnership interest, as of the date of this announcement. Guangzhou Kanghe and its ultimate beneficial owners are Independent Third Parties as of the date of this announcement
Guarantor	Mr. Ye Junqiang (葉俊強), who is the controlling shareholder holding the entire equity interest in the Vendor as of the date of this announcement. The Guarantor is an Independent Third Party as of the date of this announcement

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
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
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
PRC	the People's Republic of China
PRC Legal Advisers	Commerce & Finance Law Offices, legal advisers to the Company as to PRC law
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)
Stock Exchange	The Stock Exchange of Hong Kong Limited
Target Company	Dongguan Kanghua Haemodialysis Healthcare Investment Management Co., Ltd.* (東莞康華血液透析醫療投資管理有限公司), a limited liability company established in the PRC on 24 February 2016 and owned as to 85% by the Vendor and 15% by Guangzhou Kanghe as at the date of this announcement. The Target Company and its beneficial owners are Independent Third Parties as of the date of this announcement
Target Group	the Target Company and its subsidiaries
Valuer	Vincorn Consulting and Appraisal Limited, an Independent Third Party

Vendor

Dongguan YouWang Enterprise Investment Co., Ltd.* (東莞市優旺實業投資有限公司), a limited liability company established in the PRC on 26 May 2017 and owned as to 100% by the Guarantor as of the date of this announcement. Each of the Vendor and the Guarantor is an Independent Third Party as of the date of this announcement

%

per cent

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

Hong Kong, 15 December 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 Ai Qin

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*

APPENDIX I – REPORT FROM BAKER TILLY HONG KONG LIMITED

The following is the text of the report dated 15 December 2023 from the Reporting Accountants, prepared for inclusion in this announcement.

INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASHFLOWS IN CONNECTION WITH THE VALUATION OF 70% EQUITY INTEREST IN DONGGUAN KANGHUA HAEMODIALYSIS HEALTHCARE INVESTMENT MANAGEMENT CO., LTD. (東莞康華血液透析醫療投資管理有限公司)

TO THE DIRECTORS OF GUANGDONG KANGHUA HEALTHCARE CO., LTD.

We have examined the calculations of the discounted future estimated cashflows on which the valuation prepared by Vincorn Consulting and Appraisal Limited (泓亮諮詢及評估有限公司) dated 15 December 2023 in respect of 70% equity interests in Dongguan Kanghua Haemodialysis Healthcare Investment Management Co., Ltd (東莞康華血液透析醫療投資管理有限公司) (the “**Target Company**”) as at 31 October 2023 (the “**Valuation**”) are based. The Valuation based on the discounted future estimated cashflows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cashflows in accordance with the bases and assumptions determined by the directors of the Company and set out in the Valuation (the “**Assumptions**”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cashflows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management 1 “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements” which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibility

Our responsibility is to form an assurance conclusion on the calculations of the discounted future estimated cashflows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether the discounted future estimated cashflows, so far as the calculations are concerned, have been properly compiled, in all material respects, based upon the Assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future estimated cashflows have been properly compiled, in all material respects, based upon the Assumptions.

Other Matter

The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from those used in the Valuation and the variation may be material. Our opinion is not qualified in respect of this matter.

For the purpose of this engagement, we do not review the accounting policies for the Valuation as the Valuation relates to discounted future cash flows and no accounting policies have been adopted in the preparation of the Valuation. We are not reporting on the appropriateness and validity of the Assumptions on which the Valuation is based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong

15 December 2023

Del Rosario, Faith Corazon

Practising certificate number P06143

APPENDIX II – LETTER FROM THE BOARD

The following is the text of the letter dated 15 December 2023 from the Board prepared for inclusion in this announcement.

To: The Listing Division

The Stock Exchange of Hong Kong Limited
12th Floor, Two Exchange Square
8 Connaught Place, Central
Hong Kong

Dear Sir/Madam,

Company: Guangdong Kanghua Healthcare Co., Ltd. (Stock Code: 3689) (the “Company”)

Re: Profit Forecast – Confirmation letter under the requirements of Rule 14.62(3) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”)

Reference is made to the announcement of the Company dated 15 December 2023 in relation to the valuation report dated 15 December 2023 (the “**Valuation Report**”) prepared by Vincorn Consulting and Appraisal Limited (the “**Valuer**”). The Valuer adopted income approach in valuation of Dongguan Kanghua Haemodialysis Healthcare Investment Management Co., Ltd.* (東莞康華血液透析醫療投資管理有限公司) and its subsidiaries.

The board of directors of the Company (the “**Board**”) has reviewed the basis and assumptions of the valuation and discussed the same with the Valuer. The Board has also considered the report issued by Baker Tilly Hong Kong Limited on 15 December 2023 in relation to the calculations of the profit forecast in the Valuation Report.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the board of directors of the Company confirmed that the profit forecast used in the aforesaid Valuation Report has been made after due and careful enquiry.

The Board of Directors

Guangdong Kanghua Healthcare Co., Ltd.

15 December 2023