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廣東康華醫療集團股份有限公司

GUANGDONG KANGHUA HEALTHCARE GROUP CO., LTD.*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3689)

**VOLUNTARY ANNOUNCEMENT
BUSINESS UPDATE
DISPOSAL OF 55% EQUITY INTEREST IN KANGXIN HOSPITAL**

This announcement is made by the Company on a voluntary basis.

Reference is made to:

- (i) the announcement of the Company dated 23 May 2022 in relation to, among other things, the management arrangements with Silver Mountain relating to Kangxin Hospital and the possible disposal of Kangxin Hospital; and
- (ii) the announcements of the Company dated 5 May 2023 and 24 May 2023 in relation to, among other things, the Company's acquisition of 40% equity interest in Kangxin Hospital for the purpose of gaining full equity control over Kangxin Hospital to facilitate the implementation of the management arrangements with Silver Mountain.

The Board is pleased to announce that:

- (i) Kangxin Hospital has completed the Demerger under PRC laws, pursuant to which the Property Company (as a wholly-owned subsidiary of the Company) has been established to hold the land and buildings underlying the operations of Kangxin Hospital; and
- (ii) on 9 January 2025, the Company (as the vendor) and the Purchaser (which is under common control with Silver Mountain) have entered into the Sale and Purchase Agreement for the Disposal of 55% equity interest in Kangxin Hospital at a consideration of RMB34,936,000.

Upon Completion, Kangxin Hospital will cease to be a subsidiary of the Company and the financial results of Kangxin Hospital will no longer be consolidated into those of the Company. The Company expects to account for its remaining 45% equity interest in Kangxin Hospital as an interest in associate under equity method.

The Group (through the Property Company) retains 100% ownership over the land and buildings underlying the operations of Kangxin Hospital and will lease them to Kangxin Hospital for its operations.

INTRODUCTION

Reference is made to:

- (i) the announcement of the Company dated 23 May 2022 in relation to, among other things, the management arrangements with Silver Mountain relating to Kangxin Hospital and the possible disposal of Kangxin Hospital; and
- (ii) the announcements of the Company dated 5 May 2023 and 24 May 2023 in relation to, among other things, the Company's acquisition of 40% equity interest in Kangxin Hospital for the purpose of gaining full equity control over Kangxin Hospital to facilitate the implementation of the management arrangements with Silver Mountain.

THE DEMERGER AND THE DISPOSAL

The Board is pleased to announce that:

- (i) Kangxin Hospital has completed the Demerger under PRC laws, pursuant to which the Property Company (as a wholly-owned subsidiary of the Company) has been established to hold the land and buildings underlying the operations of Kangxin Hospital and
- (ii) on 9 January 2025, the Company (as the vendor) and the Purchaser (which is under common control with Silver Mountain) entered into the Sale and Purchase Agreement for the Disposal of the 55% equity interest in Kangxin Hospital at a consideration of RMB34,936,000.

Upon Completion, Kangxin Hospital will cease to be a subsidiary of the Company and the financial results of Kangxin Hospital will no longer be consolidated into those of the Company. The Company expects to account for its remaining 45% equity interest in Kangxin Hospital as an interest in associate under equity method. The Group (through the Property Company) retains 100% ownership over the land and buildings underlying the operations of Kangxin Hospital and will lease them to Kangxin Hospital for its operations.

The Sale and Purchase Agreement

Date

9 January 2025

Parties

Vendor: the Company (which holds 100% equity interest in Kangxin Hospital as at the date of this announcement)

Purchaser: the Purchaser (which is under common control with Silver Mountain)

Target company: Kangxin Hospital (which is owned as to 100% by the Company as at the date of this announcement)

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

Subject matter

The Company has agreed to sell, and the Purchaser has agreed to purchase, 55% equity interest in Kangxin Hospital at the consideration of RMB34,936,000.

The consummation of the Disposal is in furtherance of the Purchase Right granted to Silver Mountain as disclosed in the Company's announcement dated 23 May 2022. The consideration for the Disposal of RMB34,936,000 is determined with reference to approximately 1.5 times of the revenue of Kangxin Hospital for the year ended 31 December 2021 (which was the latest financial year referenced by the parties at the time of the negotiation in May 2022).

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

	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
Shareholders				
The Company	64.0	100%	28.8	45%
The Purchaser	—	—	35.2	55%
Total	<u>64.0</u>	<u>100%</u>	<u>64.0</u>	<u>100%</u>

Terms of payment of consideration

The Purchaser shall pay the consideration for the Disposal of RMB34,936,000 in two tranches:

- (i) 15% in cash within five business days from the date that certain conditions as stipulated in the Sale and Purchase Agreement have been satisfied (including the entering into of the ancillary agreements as described below in the section headed “The ancillary agreements”); and
- (ii) 85% in cash within five business days from the date of Completion (being the date on which the transfer of 55% equity interest in Kangxin Hospital from the Company to the Purchaser is duly registered with the relevant industrial and commercial administration authority in the PRC).

The conditions referred to in (i) above are primarily customary in nature or processes in the anticipated course of the Disposal in accordance with the Sale and Purchase Agreement and no material impediment to satisfying such conditions is expected.

Completion

Completion shall take place upon the completion of the registration procedures for the transfer of the 55% equity interest in Kangxin Hospital from the Company to the Purchaser with the relevant industrial and commercial administration authority in the PRC.

Barring unforeseen circumstances, the Company currently expects that Completion shall take place within 30 days from the date of the Sale and Purchase Agreement.

The ancillary agreements

The Group (through the Property Company) retains 100% ownership over the land and buildings underlying the operations of Kangxin Hospital. The Property Company (as the lessor) has entered into a 20-year lease agreement with Kangxin Hospital (as the lessee) for the use of such assets. There is an initial 2-year rent free period, after which the rental payable by Kangxin Hospital for the following four years will be determined with reference to the appraisal by an independent valuer. Subsequently, the rental payable will be reassessed every four years through a similar appraisal process.

The Company and the Purchaser have entered into a shareholders agreement with customary terms to govern their respective rights and obligations as shareholders of Kangxin Hospital after Completion.

The Company and the Property Company have provided undertakings in favour of Kangxin Hospital on the assumption of certain liabilities of Kangxin Hospital incurred, or arising out of circumstances that existed, prior to Completion.

Reasons for, and benefits of, the Disposal and the Directors' views

Silver Mountain's management of Kangxin Hospital began in June 2022 and has since yielded encouraging results. According to Kangxin Hospital's management accounts (prepared under International Financial Reporting Standards), its revenue for the years ended 31 December 2021, 2022, and 2023 was approximately RMB37.79 million, RMB53.58 million, and RMB72.86 million, respectively, representing a compound annual growth rate of 24.5%. Furthermore, Silver Mountain has successfully introduced Artemed, a renowned German medical brand, along with relevant technologies, to improve and optimize Kangxin Hospital's operations.

The Board is confident that Kangxin Hospital will benefit from the comprehensive resources and networks that the Purchaser (which is under common control with Silver Mountain) can offer as a 55% shareholder of Kangxin Hospital following the Disposal. Such majority stake will incentivize the Purchaser (which is under common control with Silver Mountain) to deploy additional resources, which are expected to, among other things, accelerate the deployment of Kangxin Hospital's second-phase complex. By retaining a 45% stake in Kangxin Hospital, the Group will be able to benefit financially from its future prospects. Additionally, the Group retains 100% ownership of the land and buildings underlying Kangxin Hospital's operations through the Property Company and has leased them to Kangxin Hospital at market rent (after an initial 2-year rent free period) to be determined based on independent valuation. This arrangement is expected to enhance the value of these assets and increase the overall return to the Group. The Directors (including the independent non-executive Directors) consider that the terms of the Disposal (including the Sale and Purchase Agreement and the ancillary agreements as described above) 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 Disposal, or was required to abstain from voting on the relevant resolutions of the Board approving the Disposal.

Financial effect of the Disposal

Upon Completion, Kangxin Hospital will cease to be a subsidiary of the Company and the financial results of Kangxin Hospital will no longer be consolidated into those of the Company. The Company expects to account for its remaining 45% equity interest in Kangxin Hospital as an interest in associate under equity method.

The Group (through the Property Company) retains 100% ownership over the land and buildings underlying the operations of Kangxin Hospital; such assets will remain on the consolidated balance sheet of the Company.

INFORMATION OF THE PARTIES

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.

Silver Mountain and the Purchaser

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.

The Purchaser is under common control with Silver Mountain and is engaged in the development of operation of hospitals in the PRC.

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

LISTING RULES IMPLICATIONS

The consummation of the Disposal is in furtherance of the exercise of the Purchase Right granted to Silver Mountain as disclosed in the Company's announcement dated 23 May 2022. As all of the applicable percentage ratios under Rule 14.07 of the Listing Rules at the time were under 5%, the grant of the Purchase Right (and the possible disposal of Kangxin Hospital on the basis of the Demerger) would not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

For completeness, the Company has refreshed the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Disposal as at the date of this announcement, and all of them remain under 5%.

DEFINITIONS

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

Board	the board of Directors
Company	Guangdong Kanghua Healthcare Group Co., Ltd.* (廣東康華醫療集團股份有限公司), 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 Disposal pursuant to the Sale & Purchase Agreement, upon which the transfer of 55% equity interest in Kangxin Hospital from the Company to the Purchaser is duly registered with the relevant industrial and commercial administration authority in the PRC
connected person	has the meaning ascribed to it in the Listing Rules
Demerger	the demerger of Kangxin Hospital conducted under PRC laws, pursuant to which the Property Company (as a wholly-owned subsidiary of the Company) has been established to hold the land and buildings underlying the operations of Kangxin Hospital
Directors	the director(s) of the Company
Disposal	the disposal by the Company of 55% equity interest in Kangxin Hospital to the Purchaser pursuant to the Sale and Purchase Agreement, which is the subject matter 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

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 100% by the Company as at the date of this announcement
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
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
Property Company	Chongqing Kanghua Zhonglian Healthcare Management Co., Ltd.* (重慶康華眾聯醫療管理有限公司), a limited liability company established in the PRC on 14 June 2024 pursuant to the Demerger and held as to 100% by the Company as at the date of this announcement
Purchase Right	Silver Mountain's right to purchase a controlling stake in Kangxin Hospital as disclosed in the Company's announcement dated 23 May 2022
Purchaser	Beijing Pantheon Health Management Co., Ltd.* (北京鉑頌健康管理有限公司), a limited liability company established in the PRC on 13 October 2023 and is under common control with Silver Mountain as at the date of this announcement
RMB	Renminbi, the lawful currency of the PRC
Sale and Purchase Agreement	the sale and purchase agreement for the disposal by the Company of its 55% equity interest in Kangxin Hospital to Silver Mountain dated 9 January 2025
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 as at the date of this announcement, and in the context of this announcement, includes its group of companies

Stock Exchange

The Stock Exchange of Hong Kong Limited

%

per cent

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

Hong Kong 9 January 2025

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

* *English translated name for identification purpose only.*