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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 60% EQUITY INTEREST OF
ZHONGLIAN CARDIOVASCULAR HOSPITAL**

ACQUISITION AGREEMENT

The Board announces that on 22 June 2018, the Company entered into the Acquisition Agreement with the Vendor, pursuant to which the Company agreed to acquire the 60% equity interest of Zhonglian Cardiovascular Hospital from the Vendor for a total consideration of RMB270 million.

Upon Completion, Zhonglian Cardiovascular Hospital will become a non-wholly-owned subsidiary of the Company.

LISTING RULES IMPLICATIONS

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

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

INTRODUCTION

On 22 June 2018, the Company entered into the Acquisition Agreement with the Vendor, the sole shareholder of Zhonglian Cardiovascular Hospital as of the date of this announcement, pursuant to which the Company agreed to acquire the Equity Interest from the Vendor for a total consideration of RMB270 million.

Upon Completion, Zhonglian Cardiovascular Hospital will become a non-wholly-owned subsidiary of the Company.

THE ACQUISITION AGREEMENT

The principal terms of the Acquisition Agreement are summarised below:

1. Date

22 June 2018

2. Parties

Transferee: The Company

Transferor: the Vendor, holding the entire equity interest in Zhonglian Cardiovascular Hospital as of the date of this announcement

Target company: Zhonglian Cardiovascular Hospital

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 agreed to purchase, and the Vendor agreed to sell, the Equity Interest for a consideration of RMB270 million.

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

| Shareholders | <i>Immediately before Completion</i> | | <i>Immediately after Completion</i> | |
|--------------|--|-------------------------|--|-------------------------|
| | Contribution in the registered capital (RMB' million) | % of equity interest | Contribution in the registered capital (RMB' million) | % of equity interest |
| The Company | — | — | 162 ^(note) | 60% |
| The Vendor | <u>270</u> | <u>100%</u> | <u>108</u> | <u>40%</u> |
| Total: | <u><u>270</u></u> | <u><u>100%</u></u> | <u><u>270</u></u> | <u><u>100%</u></u> |

Note: It represents the proportion of the registered capital corresponding to the Equity Interest to be transferred from the Vendor to the Company pursuant to the Acquisition Agreement.

4. **Consideration**

The Consideration was RMB270 million, which 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 Zhonglian Cardiovascular Hospital and the price-to-book ratio of comparable listed companies as well as liquidity discount and other factors.

The Consideration shall be payable in accordance with the terms and conditions of the Acquisition Agreement, out of which RMB80.0 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 RMB190.0 million will be funded by the internal financial resources of the Group.

5. **Governance**

The parties agreed that, upon Completion, the Company shall have the right to restructure the board of directors of Zhonglian Cardiovascular Hospital and amend the relevant constitutional documents. The Company shall have the right to appoint at least two-third of the members of the board of directors of Zhonglian Cardiovascular Hospital.

6. Conditions Precedent

Completion of 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;
- (c) each party having obtained the necessary approvals for the execution and performance of the Acquisition Agreement;
- (d) the Vendor having confirmed in writing that at least two-third of the members of the board of directors of Zhonglian Cardiovascular Hospital will be appointed by the Company;
- (e) Zhonglian Cardiovascular Hospital being in possession of the relevant licenses, qualifications and certificates that have passed annual inspection;
- (f) the Vendor having undertaken to assume the liabilities or penalties (whether known to the Vendor or not) arising from a breach of applicable laws and regulations by Zhonglian Cardiovascular Hospital prior to Completion;
- (g) the representations and warranties given by the Vendor in the Acquisition Agreement remaining in all material respects true, accurate and free from material omission, and the Vendor having complied with its obligations in accordance with the Acquisition Agreement; and
- (h) the Company having completed to its satisfaction due diligence on Zhonglian Cardiovascular Hospital.

In the event that the Company reasonably concludes that the Vendor and Zhonglian Cardiovascular 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.

7. Completion

Completion shall take place on the fifth business day from the date on which all of the conditions precedent have been satisfied or waived by the Company (or such other date as agreed among the parties).

Within 20 business days from Completion, the Vendor and Zhonglian Cardiovascular 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 of the PRC and procure Zhonglian Cardiovascular Hospital to appoint the directors, supervisors and the legal representative nominated by the Company and comply with the relevant filing requirements.

8. Terms of payment

The Company shall pay a deposit (the “**Deposit**”) of RMB81.0 million (representing 30% of the Consideration) within 7 business days after the execution of the Acquisition Agreement.

The Company shall pay the Consideration to the Vendor in the following manner:

- (a) on the date of Completion (currently expected to be on or before 31 July 2018), the Deposit shall be converted into part payment of the Consideration, and the Company shall pay to the Vendor RMB54.0 million (representing 20% of the Consideration);
- (b) within one month from the date of Completion (currently expected to be on or before 31 August 2018), the Company shall pay to the Vendor RMB54.0 million (representing 20% of the Consideration); and
- (c) within eight months from the date of Completion (currently expected to be on or before 31 March 2019), the Company shall pay to the Vendor RMB81.0 million (representing 30% of the Consideration).

INFORMATION ON THE PARTIES

Zhonglian Cardiovascular Hospital

Zhonglian Cardiovascular Hospital is a limited liability company established in the PRC on 10 June 2014.

Zhonglian Cardiovascular Hospital is a specialty hospital in cardiovascular diseases located in Chongqing, the PRC. Zhonglian Cardiovascular Hospital also represents the Group's first managed hospital and its first presence outside of Guangdong Province. For details of the Group's management arrangement with Zhonglian Cardiovascular Hospital, please refer to the Prospectus. Zhonglian Cardiovascular Hospital commenced providing outpatient services and inpatient services in April 2017 and May 2017, respectively. It treated more than 3,000 outpatients and 390 inpatients and performed more than 190 cardiovascular surgeries in 2017. It also became a designated hospital for medical insurance in Chongqing in November 2017.

The following is the key financial information of Zhonglian Cardiovascular Hospital extracted from its unaudited management accounts prepared in accordance with generally acceptable accounting principles in the PRC for the financial years ended 31 December 2016 and 31 December 2017, respectively:

| | For the year ended 31 December 2016 <i>(RMB' million)</i> | For the year ended 31 December 2017 <i>(RMB' million)</i> |
|--------------------------|---|---|
| Net loss before taxation | 10.7 | 58.1 |
| Net loss after taxation | 8.0 | 43.6 |
| | As of 31 December 2016 | As of 31 December 2017 |
| Net assets (liabilities) | 22.0 | (21.6) |

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Zhonglian Cardiovascular Hospital and its ultimate beneficial owners are Independent Third Parties. Upon Completion, Zhonglian Cardiovascular Hospital will become a non-wholly-owned subsidiary of the Company and its financial results will be consolidated into those of the Group. The existing management arrangement between Zhonglian Cardiovascular Hospital and the Group will thereafter cease.

Assuming the Acquisition had been completed as at 31 December 2017 on a pro forma basis, (i) the Group's total assets would increase by approximately 389.9 million and the Group's total liabilities would increase by approximately RMB171.5 million. As a result, the Group's net assets would increase by approximately RMB218.4 million to approximately RMB1,507.8 million; and (ii) the Group would recognise provisional goodwill of approximately RMB139.0 million. Provisional goodwill as of the acquisition date is measured as the excess of the Consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. Recognition of provisional goodwill of approximately RMB139.0 million arising from the Acquisition which is estimated on the assumption that the fair value of the identified assets, liabilities and contingent liabilities of Zhonglian Cardiovascular Hospital is the same as the carrying amount of the net assets of Zhonglian Cardiovascular Hospital as at 31 December 2017.

Specifically, in the absence of a formal valuation, the Directors have not made any fair value adjustment on potential tangible and intangible assets of which the fair value may be significantly different from their carrying amount, if any, as at 31 December 2017. The Company is in the process of identifying and determining the fair values of the identifiable assets and liabilities of the Zhonglian Cardiovascular Hospital. Accordingly, the actual goodwill may be significantly different from the provisional goodwill presented.

The Vendor

The Vendor is a limited liability company established in the PRC on 26 February 2013. The Vendor is the sole shareholder of Zhonglian Cardiovascular 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.

The Company

The Company is principally engaged in the operation of private hospitals in the PRC.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Board considers that, although Zhonglian Cardiovascular Hospital has yet to become profitable as it is still in a start-up phase, its initial operations signify promising prospects and potential synergies with the Group. It is therefore strategically appropriate for the Group to proceed with the Acquisition at this stage with a relatively lower level of acquisition cost. The Board considers that full integration and consolidation of Zhonglian Cardiovascular Hospital into the Group's operations will enable the Group to benefit from the operating prospects of Zhonglian Cardiovascular Hospital to a greater extent in the long term compared to the current management arrangement. The Board considers that the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

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

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

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 Equity Interest from the Vendor to the Company dated 22 June 2018 |
| 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 Acquisition in accordance with the terms and conditions of the Acquisition Agreement |
| Consideration | RMB270 million, being the consideration for the Acquisition |
| connected person | has the meaning as ascribed to it in the Listing Rules |
| Zhonglian Cardiovascular 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 beneficially owned by Independent Third Parties. As of the date of this announcement, it is a hospital managed by the Group |
| Directors | the director(s) of the Company |
| Equity Interest | 60% of the equity interest in Zhonglian Cardiovascular Hospital and owned 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 |
| 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 and the sole shareholder of Zhonglian Cardiovascular Hospital as of the date of this announcement |
| 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, the intended use of which was disclosed in the Prospectus |

| | |
|----------------|---|
| 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 |
| RMB | Renminbi, the lawful currency of the PRC |
| Prospectus | the prospectus of the Company dated 27 October 2016 |
| 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 |
| % | per cent |

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

Hong Kong
22 June 2018

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 Simon (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*