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Town Health International Medical Group Limited

康健國際醫療集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 3886)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN CENTRAL MEDICAL HOLDINGS LIMITED INVOLVING ISSUE OF CONVERTIBLE BONDS UNDER THE GENERAL MANDATE

INTRODUCTION

Reference is made to the announcement of the Company dated 11 July 2022 (the “**Announcement**”) pursuant to Rule 14.07 of the Listing Rules in relation to the Acquisition. Capitalized terms used in this supplemental announcement shall have the same meaning ascribed to them in the Announcement.

In addition to the information disclosed in the Announcement, the Company wishes to provide its Shareholders with additional information regarding the Acquisition as follows.

PREVIOUS LISTING APPLICATIONS OF THE SELLER

To the Directors’ best knowledge, information and belief, the Seller had made three listing applications to the Stock Exchange on 29 October 2020, 15 June 2021 and 30 December 2021, respectively (each a “**Listing Application**”). It has been more than six months since the date of the Seller’s last Listing Application. As such, the last Listing Application has lapsed. The Seller has also confirmed to the Company that as at the date of this announcement, (i) no member of the Target Group is in the process of applying to list on the Stock Exchange or any other exchange, and (ii) the Seller has no intention to submit any renewed listing application in respect of the Seller or any member of the Target Group. Neither the Company, the Buyer nor any subsidiary of the Company has entered into, or has any present intention to enter into, any agreement to list the Target Group.

As part of the Company's evaluation of the Target Group, the Company carefully considered the Listing Applications and regulatory concerns, including whether the Target Group satisfies the profit test requirement under Rule 8.05(1)(a) of the Listing Rules. More specifically, the remuneration of certain founder doctors of the Target Group were paid by way of distribution of dividends rather than accounted for as costs. To address these concerns, in the Acquisition, the Company has fully taken into account the potential impact of the founder doctors' remuneration on the profit of the Target Group and the Target Group agreed to enter into new service agreements with the founder doctors prior to Completion in order to ensure the remunerations of such doctors will be properly accounted for as costs of the Target Group.

In order to ensure that the Company fully considers the merits of the Acquisition, the Company carried out extensive work prior to signing of the Share Purchase Agreement in order to ensure the terms underlying the Acquisition are fair and reasonable, which includes but is not limited to the following:

- (a) the Company engaged professional advisers to provide financial, tax and legal advice in relation to the Target Group and the Acquisition, and an independent valuer to value 100% equity interest in the Target Group;
- (b) the Company conducted extensive financial, tax and legal due diligence (the “**Due Diligence**”) and carried out arm's length negotiation with the Seller with respect to the commercial terms in the Share Purchase Agreement to address issues identified during the due diligence process; and
- (c) the issues identified during the due diligence process would be addressed by the contractual terms entered into between the parties under the Share Purchase Agreement (including the provision of warranties, indemnities and conditions precedent to be carried out by the Seller prior to Completion).

THE TOTAL CONSIDERATION BEING FAIR AND REASONABLE

In addition to the Due Diligence, the Directors also took into account the following factors in reaching their view that the Total Consideration is fair and reasonable:

- (a) the Total Consideration of HK\$476,000,000 represents approximately a 6.67% discount to the HK\$510,000,000 valuation of the Target Group as appraised by the independent valuer adopting a market standard valuation methodology;
- (b) pursuant to the terms of the Share Purchase Agreement negotiated at arm's length by the parties, the Seller Parties have provided a profit guarantee based on the actual level of Adjusted Net Profit of the Target Group in the coming Relevant Financial Years. The profit guarantee was designed to protect the Company and the Directors from shortfall or downward trends in the profit of the Target Group;

- (c) part of the Total Consideration will be settled by the issue of convertible bonds with an initial conversion price that is at a premium to the prevailing market price of the Company's Shares, which is a feature of the Acquisition that is favourable to the Company as it limits the initial cash outlay and future dilution effect of any conversion under the convertible bonds;
- (d) the Target Group maintained satisfactory financial performance in recent financial years. In particular, despite disruptive impacts of the COVID-19 pandemic on the Target Group's operations, the Target Group achieved growth in revenue for the financial year ended 31 March 2021 and continued to record a profit. While there was a decline in the Target Group's profit after tax during the first quarter of year 2022, the Company notes that the decrease in profit was primarily due to adverse and disruptive impacts of the COVID-19 pandemic which was common to most, if not all, commercial activities based in Hong Kong; and
- (e) the Acquisition is part of the Company's wider strategy to expand its market presence. The Company and the Directors believe the Acquisition will allow the Group to increase its market share, expand its medical team to include some of the most reputable doctors in their respective fields in Hong Kong and to improve the quality of healthcare the Group provides (which the Company believes is the centrepiece of the Group's business), and further solidify the Group's position in the private medical services sector in Hong Kong.

As disclosed in the Announcement, the Company is principally engaged in, among other things, provision of medical and dental services in Hong Kong and in the PRC, as well as managing healthcare networks and provision of third-party medical network administrator services in Hong Kong. Suffering from the disruptive impacts of the COVID-19 pandemic, the Directors believe that the Company should grasp the trend of integration of small to medium medical clinics in Hong Kong to align with its growth and consolidation strategy.

With regards to the Acquisition, in addition to achieving profit growth, the Company most importantly intends to expand its market share and achieve potential synergy with a well-established local integrated private medical services provider. While the suitability for listing of the Target Group would have given greater credence to the Company in relation to the Target Group's corporate governance and financial health and was a factor fully considered by the Company, it is not the Company's primary and sole concern when considering the benefits of and reasons for entering into the Acquisition. The reasons the Directors consider the Acquisition to be in the Company's and the Shareholders' interests are also set out under the section headed "Reasons for and Benefits of the Acquisition" in the Announcement.

Based on the Due Diligence and reasons set out hereinabove, the Directors consider the terms of the Acquisition to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

WARNING

Shareholders and potential investors of the Company should note that Completion of the Acquisition is subject to the fulfilment (or waiver, if applicable) of certain Conditions Precedent under the Share Purchase Agreement, and Completion may or may not proceed. Shareholders and potential investors of the Company are therefore advised to exercise caution when dealing in the Shares.

By Order of the Board
Town Health International Medical Group Limited
Jin Zhaogen
Executive Director and Chief Executive Officer

Hong Kong, 15 August 2022

As at the date of this announcement, the executive Directors are Mr. Jin Zhaogen (Chief Executive Officer), Ms. Zhao Xiangke (Chief Financial Officer), Dr. Wong Chi Kit Nelson, Dr. Law Kwan Kin, Dr. Wong Chun Wa, Mr. Ng Ting Chi, Ms. Yao Yuan and Ms. Lau Wai Yee, Susanna; the non-executive Directors are Mr. Kong Dechang (Chairman) and Mr. Hou Jun; and the independent non-executive Directors are Mr. Ho Kwok Wah, George, MH, Mr. Yu Xuezhong, Dr. Xu Weiguo and Mr. Chui Tsan Kit.