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Hospital Corporation of China Limited

弘和仁愛醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3869)

ANNOUNCEMENT

This announcement is made by the board (the “**Board**”) of directors (the “**Directors**”) of Hospital Corporation of China Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) on a voluntary basis.

Reference is made to the voluntary announcement of the Company dated July 4, 2017 (the “**Announcement**”) in relation to the non-binding framework agreement entered into among the Company and the Vendors regarding the possible acquisition of 70% equity interests in a for-profit general services hospital in Zhejiang (the “**Hospital**”) and its associated company, and the Target Properties (the “**Proposed Acquisition**”). Unless defined otherwise, capitalised terms used herein shall have the same meaning ascribed to them in the Announcement.

The Board is pleased to announce that on August 10, 2017, the Company entered into a legally binding letter of intent (the “**Letter of Intent**”) with the Vendors and the Hospital Group (as defined below) in relation to the Proposed Acquisition.

The principal terms of the Letter of Intent are summarised below.

THE LETTER OF INTENT

Subject to the entering into of a formal sale and purchase agreement in relation to the Proposed Acquisition (the “**Definitive Transaction Document**”), the Company, the Vendors and the Hospital Group have agreed on the following principal terms under the Letter of Intent:

Date: August 10, 2017 (after trading hours)

Parties:

1. the Company, as the purchaser
2. the Vendors
3. the Hospital, its associated company and two subsidiaries (the “**Hospital Group**”)

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, each of the Vendors and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited Company (the “**Listing Rules**”))

Reorganization: The Vendors have agreed to carry out a structural reorganization of the Hospital Group, which involves, among other things, the disposal of a wholly owned subsidiary of the Hospital, being a medical apparatus and instruments company, and the transfer of 70% equity interests of each of the remaining entities within the Hospital Group to a holding company (the “**Target**”) that is wholly owned by the Vendors (the “**Reorganization**”).

Upon completion of the Reorganization, the Target will directly own 70% equity interest of each of (1) the Hospital, (2) a company that is principally engaged in the supply of medicines, and (3) a company that owns the Target Properties (together the “**Target Group**”).

Valuation: The parties have agreed to determine the consideration with reference to the valuation of the Target based on the price-to-earnings ratio valuation method, subject to adjustment. The consideration shall be determined in the Definitive Transaction Document.

Conditions Precedent: Completion shall be conditional upon satisfaction or waiver (as applicable) of each of the conditions precedent including but not limited to:

1. the Company having obtained its shareholders' approval to enter into the Definitive Transaction Document and the transactions contemplated thereunder;
2. the Hospital having obtained the necessary approval to convert the allocated land use rights of certain properties into granted land use rights;
3. the Target Group having registered their tenancy agreements with the relevant government authorities;
4. the Hospital having obtained the confirmation from the relevant government authorities as to compliance with the relevant advertising regulations;
5. the Target Group having renewed all relevant licenses;
6. the Vendors having granted an one-year interest free loan to each member of the Target Group to repay all existing loans (and accrued interests thereon) from commercial banks;
7. the Target Group having fully settled all outstanding amounts due to the Vendors and other related parties; and
8. the Target Group having entered into an agreement with the relevant local tax authorities in respect of the tax subsidy arrangements.

Refundable Deposit: The Company shall pay a deposit of RMB 120,000,000 (the “**Deposit**”) into an escrow account within 15 business days upon the signing of the Letter of Intent, and any of the Deposit shall not be transferred or appropriated from the escrow account without the consent of the Company and the Vendor’s representative.

In the event that the Definitive Transaction Document has not been entered into, or the completion of the Proposed Acquisition does not occur within the prescribed time under the Definitive Transaction Document, the Deposit shall be returned to the Company in full within 15 business days from the date that the parties determine not to continue the negotiation on the Proposed Acquisition nor to complete the Proposed Acquisition.

In the event that all the conditions precedents have been satisfied but the Company unilaterally refuses to enter into the Definitive Transaction Document, part of the Deposit may be deemed to be compensation to the Vendors for the losses suffered by them in respect of the Proposed Acquisition.

Exclusivity Period: The exclusivity period has been extended to 180 days after the signing of the Letter of Intent, such that the Company shall have the exclusive right to negotiate with the Vendors in relation to the terms of the Proposed Acquisition within the period.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Group is principally engaged in hospital management and general hospital business in China. It focuses expansions in regions with sizeable populations and attractive economic conditions, including the Zhejiang region in which the Hospital is located. The Hospital is in close proximity to the hospitals that the Group manages or operates in the area, allowing the Group and Hospital to create a synergy effect and benefit from the resultant economies of scale, including shared medical resources and intra-group cooperation.

Given the Hospital features the use of traditional Chinese medicines and provides comprehensive medical services, it can take advantage of government policies that promote traditional Chinese medicine to develop its unique offering and enhance its future prospects. The Hospital also has good staff support and operational records, laying strong foundations for growth. The planned opening of a new medical building will also improve the growth potential of the Hospital. The Company believes the Hospital has a strong competitive advantage in the region, making it a useful addition to the Group. The Company also believes that the Hospital has great growth potential as it has a large patient base and a leading reputation in the area.

The Hospital is a for-profit hospital with stable patient base and profitability, which is expected to enhance the core value of the Company. The Hospital has a good financial track record and stable business operations. It has consistently turned a profit and maintained its own profitability prospects, which shows its marked potential to become a profitable acquisition for the Group. Such a for-profit hospital that has completed its legal restructuring is relatively rare in the market. The Directors consider that the Proposed Acquisition can serve as a model for the Group's future acquisitions.

The Board considers that the terms of the Letter of Intent are fair and reasonable and on normal commercial terms. The Board further considers that the Proposed Acquisition is in the interests of the Company and its shareholders as a whole.

GENERAL

As at the date of this announcement, the terms and conditions of the Proposed Acquisition are still being negotiated. The Proposed Acquisition, if materialised, may constitute a notifiable transaction of the Company under the Listing Rules. Further announcement(s) will be made by the Company as and when appropriate in compliance with the Listing Rules.

Shareholders of the Company and potential investors should note that although the Letter of Intent is legally binding, it is still subject to, among other things, the entering into further definitive agreements and documents, and accordingly, the transactions contemplated thereunder may or may not proceed. Shareholders of the Company and potential investors should exercise caution when dealing in the shares of the Company.

By order of the Board
Hospital Corporation of China Limited
Zhang Xiaopeng
Executive Director and Chief Executive Officer

Beijing, China, August 10, 2017

As at the date of this announcement, the directors of the Company are Mr. ZHANG Xiaopeng and Mr. LU Wenzuo being the executive Directors; Mr. ZHAO John Huan, Mr. LIN Sheng, Ms. LIU Lu and Ms. WANG Nan being the non-executive Directors; Ms. CHEN Xiaohong, Mr. SHI Luwen and Mr. ZHOU Xiangliang being the independent non-executive Directors.