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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)

DISCLOSEABLE TRANSACTION

DISPOSAL OF A SUBSIDIARY

THE DISPOSAL

On August 23, 2017, the Seller, being a subsidiary owned indirectly as to 80% by the Company, entered into the Equity Transfer Agreement with the Purchaser in relation to the disposal of the entire equity interest in Fuhua Hospital by the Seller to the Purchaser for a total consideration of RMB43,000,000.

LISTING RULES IMPLICATIONS OF THE DISPOSAL

The highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 5% and is less than 25%. Accordingly, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

On August 23, 2017, the Seller, being a subsidiary owned indirectly as to 80% by the Company, entered into the Equity Transfer Agreement with the Purchaser in relation to the disposal of the entire equity interest in Fuhua Hospital by the Seller to the Purchaser. Following Completion, Fuhua Hospital will cease to be a subsidiary of the Company.

THE EQUITY TRANSFER AGREEMENT

The key terms of the Equity Transfer Agreement are summarized as follows:

Date

August 23, 2017

Parties

- (a) the Seller; and
- (b) the Purchaser.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons under the Listing Rules.

Assets involved in the Disposal

Pursuant to the Equity Transfer Agreement, the Seller has agreed to sell and the Purchaser has agreed to purchase the entire equity interest of Fuhua Hospital held by the Seller.

Consideration

The consideration for the Disposal is RMB43,000,000, which is settled in cash in the following manner:

- (a) RMB5,000,000, being the non-refundable deposit, was paid by the Purchaser to the Seller on the date of the Equity Transfer Agreement; and
- (b) RMB38,000,000, being the balance of the consideration, shall be payable by the Purchaser to the Seller upon Completion.

The consideration was arrived at after arm's length negotiations between the parties by taking into consideration of, among other things, goodwill resulted from the acquisition of Fuhua Hospital, the unaudited net asset value of Fuhua Hospital and the net book value of intangible assets in respect of medical licences owned by Fuhua Hospital as at June 30, 2017.

Undertaking by the Seller

The Seller has undertaken to fully repay or settle all the outstanding bank loans, debts and payments payable by Fuhua Hospital to related parties.

Completion

Completion shall take place on or before August 31, 2017.

INFORMATION RELATING TO THE GROUP, THE SELLER, THE PURCHASER AND FUHUA HOSPITAL

Information relating to the Group

The Group is principally engaged in hospital management business and general hospital business in China.

Information relating to the Seller

The Seller is a company incorporated in the PRC with limited liability and a subsidiary owned indirectly as to 80% by the Company. It is principally engaged in provision of hospital management and operation services to the hospitals owned or managed by the Group.

Information relating to the Purchaser

The Purchaser is incorporated in the PRC with limited liability. It is principally engaged in the business of industrial investments.

Information relating to Fuhua Hospital

Fuhua Hospital is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Seller. It is a non-public for-profit general hospital with Class I hospital-equivalent scale and principally engaged in providing general hospital services.

Set out below is the unaudited net profits (both before and after taxation) of Fuhua Hospital for each of the financial years ended December 31, 2015 and December 31, 2016:

	For the year ended December 31, 2015	For the year ended December 31, 2016
	<i>RMB\$'000</i>	<i>RMB\$'000</i>
Net profits before taxation	(754)	137
Net profits after taxation	(859)	490

As at June 30, 2017, the net assets value of Fuhua Hospital (including the net payable due to the entities within the Group) in the unaudited consolidated financial statements of the Group was RMB18,832,000.

FINANCIAL EFFECT OF THE DISPOSAL

Immediately after Completion, Fuhua Hospital will cease to be an indirectly owned subsidiary of the Company and the financial results of Fuhua Hospital will no longer be consolidated into the Group's financial statements.

As a result of the Disposal, the Group is expected to record an unaudited gain after taxation of approximately RMB18.13 million, which is calculated based on the excess of the consideration for the Disposal over the aggregate amount of goodwill resulted from acquisition of Fuhua Hospital, the unaudited net asset value of Fuhua Hospital, the net book value of intangible assets in respect of medical licences owned by Fuhua Hospital and the deferred tax liabilities of Fuhua Hospital as at June 30, 2017. The gain is subject to the review of the auditor of the Company and may vary according to the net asset value of Fuhua Hospital, the net book value of intangible assets of medical licences owned by Fuhua Hospital and the deferred tax liabilities of Fuhua Hospital upon Completion.

Proceeds of the Disposal are intended to be applied towards the working capital for general corporate purpose.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Having undertaken a strategic review of the Group and Fuhua Hospital, the Directors consider that the Disposal is for the best interest of the Company and its shareholders as a whole. The Group has been strategically targeting Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale that have demonstrated advanced performance in medical specialties and are located in areas with sizeable populations and attractive economic conditions. Fuhua Hospital is a non-public for-profit general hospital with Class I hospital-equivalent scale and therefore has relatively limited room to rapidly improve its overall profitability in the prevailing policy environment. In addition, the increased average employee benefits for Fuhua Hospital to attract and retain quality personnel will result in a decrease in the gross profit margin of Fuhua Hospital. Moreover, the lease rental expenses to be incurred by Fuhua Hospital are expected to increase substantially, compared to the total lease rental expenses of Fuhua Hospital for the year ended December 31, 2016.

The Group has been and will be developing its general hospital services with an intention to form a nationwide medical services network. It has been proactively conducting market research and potential target analysis, and has preliminary contact

with, or conducted preliminary due diligence and on-site visits on, a number of potential target hospitals located in Beijing, Shanghai, Shandong province, Hebei province, Zhejiang province, Jiangsu province and Guangdong province. The Company has identified certain potential acquisition targets as at the date of this announcement.

The Directors also consider that the terms and conditions of the Equity Transfer Agreement are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

The highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 5% and is less than 25%. Accordingly, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

Unless the context otherwise requires, capitalised terms used in this announcement shall have the following meanings:

“Board”	the board of Directors
“Class I hospital”	the smaller local hospitals designated as Class I hospitals by the NHFPC hospital classification system, typically having fewer than 100 beds in operation and primarily providing more basic healthcare services limited to the neighbourhood community
“Class II hospital”	the regional hospitals designated as Class II hospitals by the NHFPC hospital classification system, typically have 100 to 500 beds in operation, providing multiple communities with integrated healthcare services and undertaking certain academic and scientific research missions
“Class III hospital”	the largest regional hospitals with the highest standard in China designated as Class III hospitals by the NHFPC hospital classification system, typically having more than 500 beds in operation, providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives

“Company”	Hospital Corporation of China Limited (弘和仁愛醫療集團有限公司), a company incorporated in the Cayman Islands with limited liability on February 21, 2014
“Completion”	completion of the transactions contemplated under the Equity Transfer Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the entire equity interest in Fuhua Hospital in accordance with the terms of the Equity Transfer Agreement
“Equity Transfer Agreement”	the equity transfer agreement in relation to the Disposal entered into between the Seller and the Purchaser as at the date of this announcement
“Fuhua Hospital”	Shanghai Fuhua Hospital Co., Ltd. (上海福華醫院有限公司), a company incorporated in the PRC with limited liability on October 17, 2007 and an indirect wholly-owned subsidiary of the Seller
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NHFPC”	the National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會), which was reorganized from the former Ministry of Health of the PRC and National Population and Family Planning Commission in March 2013
“PRC”	The People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macao Special Administration Region of the PRC and Taiwan)
“Purchaser”	Shanghai Hongfa Enterprise (Group) Co., Ltd. (上海宏發企業(集團)有限公司), a company incorporated in the PRC with limited liability on November 22, 2001
“RMB”	Renminbi, the lawful currency of the PRC

“Seller”	Shanghai Weikang Investment Management Co., Ltd. (上海維康投資管理有限公司), a company incorporated in the PRC with limited liability on April 15, 2002 and a subsidiary owned indirectly as to 80% by the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“%”	per cent.

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

Beijing, China, August 23, 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.