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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)

MAJOR TRANSACTION

ACQUISITION OF THE ENTIRE EQUITY INTEREST IN JIANDE HEXU ENTERPRISE MANAGEMENT CO., LTD.*

THE ACQUISITION

On October 27, 2017, the Purchaser and, among others, the Vendors entered into the Sale Purchase Agreement, pursuant to which the Purchaser conditionally agreed to purchase and the Vendors conditionally agreed to sell the entire equity interest in the Target Company for a total consideration of RMB483,000,000.

As of the date of this announcement, the Target Company directly owns 100% equity interest in the Holdco, which in turn owns 70% equity interest in each of the Hospital, DJ Medicines and DJ Pharmaceutical Technology. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated in the financial statements of the Company.

LISTING RULES IMPLICATION

As the highest applicable percentage ratio for the Company in respect of the Transactions is 25% or more but is less than 100%, the Transactions constitute a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors after all reasonable enquiries have been made, no Shareholders or any of their respective associates have any material interest in the Transactions. As such, no Shareholders would be required to abstain from voting in favour of the resolutions approving the Sale Purchase Agreement and the Transactions. Pursuant to Rule 14.44 of the Listing Rules, the Company may apply the written shareholders' approval in lieu of holding a general meeting of the Company to approve the terms of the Sale Purchase Agreement and the Transactions.

As at the date of this announcement, the Company has obtained a written approval on the Sale Purchase Agreement and the Transactions from Vanguard Glory, which holds 97,000,000 Shares, representing approximately 70.19% of the total number of the issued Shares. As such, the Company is not required to convene a general meeting to consider and approve the Sale Purchase Agreement and the Transactions.

A circular containing, among other things, further details of the Transactions and the Target Group is expected to be despatched to the Shareholders for information only as soon as practicable and within 15 business days of this announcement in accordance with the Listing Rules.

Shareholders and potential investors of the Company should note that the Transactions is subject to a number of Conditions which may or may not be fulfilled. Shareholders and potential investors of the Company are reminded to exercise cautions when dealing in the securities of the Company.

Reference is made to the announcements of the Company dated July 4, 2017 and August 10, 2017 in relation to, among other things, the possible acquisition of 70% equity interest in a for-profit TCM general hospital in Zhejiang and the Letter of Intent in respect of the Acquisition.

The Board is pleased to announce that, on October 27, 2017 (after trading hours), the Purchaser and, among others, the Vendors entered into the Sale Purchase Agreement, pursuant to which the Purchaser (an indirect wholly-owned subsidiary of the Company) conditionally agreed to purchase and the Vendors conditionally agreed to sell the entire equity interest in the Target Company for a total Consideration of RMB483,000,000. Upon Completion, the Target Company shall become an indirect wholly-owned subsidiary of the Company.

The principal terms of the Sale Purchase Agreement are summarized below:

A. THE SALE PURCHASE AGREEMENT

Date : October 27, 2017 (after trading hours)

Parties : a) the Purchaser;

b) Mr. Hong Jiangxin as one of the Vendors;

c) Mr. Hong Yang as one of the Vendors;

d) each of the Target Group Companies; and

e) Xinxiangli Investment.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors, each of the Target Group Companies and Xinxiangli Investment and their respective ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.

Subject Matter : The Purchaser has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the entire equity interest in the Target Company. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

As at the date of this announcement, Mr. Hong Jiangxin and Mr. Hong Yang directly owns 99% and 1% equity interest in the Target Company, respectively, and the Target Company owns the entire equity interest of the Holdco, which in turn owns 70% equity interest in each of the Hospital, DJ Medicines and DJ Pharmaceutical Technology. As at the date of this announcement, Xinxiangli Investment owns 30% equity interest in each of the Hospital, DJ Medicines and DJ Pharmaceutical Technology.

Refundable Deposit : The Company, through one of its subsidiaries, has deposited RMB120,000,000, being a refundable deposit (the “**Deposit**”), into an escrow account on August 30, 2017, pursuant to the Letter of Intent. Any of the Deposit shall not be transferred or appropriated from the escrow account without the consent of the Purchaser and Mr. Hong Jiangxin.

The Vendors shall refund RMB40,000,000 to the Company within 10 Business Days from the signing of the Sale Purchase Agreement. The Vendors shall refund RMB80,000,000 (the “**Remaining Deposit**”) to the Company within 20 Business Days from the date of payment of the first installment of the Consideration.

If all Conditions are not satisfied or waived on or before the Long Stop Date, the Remaining Deposit and any Consideration paid shall be refunded to the Company within 20 Business Days from the Long Stop Date.

Consideration : The Consideration under the Sale Purchase Agreement is RMB483,000,000 and shall be settled by the Purchaser to the Vendors in cash in the following manner:

- a) RMB241,500,000, being the first installment of the Consideration, shall be paid within 10 Business Days after the Purchaser has received the Vendors’ bank account details and subject to the satisfaction (or waiver, as applicable) of all the Conditions, except for Conditions (f) to (i) listed below in the paragraph headed “Conditions”; and
- b) RMB241,500,000, being the balance of the Consideration, shall be paid within 10 Business Days after issuance of a written acknowledgement from the Purchaser of the satisfaction (or waiver, as applicable) of Conditions (f) to (i) listed below.

The Consideration will be funded by internal resources of the Group and external loan facilities.

Basis of consideration : The Consideration was arrived at after arm's length negotiations between the Vendors and the Purchaser after taking into account, among other things, (i) the profit guarantee provided by the Vendors under the Sale Purchase Agreement as set out in the paragraph "Profit Guarantee" below; (ii) the price-to-earnings multiple of the companies whose principal business are similar to that of the Target Company; (iii) the Appraised Value pursuant to the Valuation Report; and (iv) the historical performance of the business and future prospects of the Target Group.

The Valuation Report is prepared using the market approach with guideline company method based on the estimated performance of the Hospital, DJ Medicines and DJ Pharmaceutical Technology, which constitutes a profit forecast under Rule 14.61 of the Listing Rules. Major assumptions on which the Valuation Report was based together with the letters from the Board and auditor of the Company in respect of the Valuation Report (the "**Profit Forecast Documents**") in compliance with Rule 14.62 of the Listing Rules will be set out in the circular to be despatched to the Shareholders.

Having considered the above factors, the Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

- a) the Purchaser having duly executed the Sale Purchase Agreement and having obtained all necessary internal consents and approvals, shareholders' approval and government bodies' approval in relation to the Acquisition;
- b) the Company and the Purchaser having fulfilled the requirements under the Listing Rules in relation to disclosure and Shareholders' approval which are applicable to the Acquisition;

- c) the Vendors and each Target Group Company having duly executed the Sale Purchase Agreement and having obtained, if applicable, all necessary internal consents and approvals and government bodies' approval in relation to the Acquisition;
- d) each of the Vendors has agreed to waive their pre-emptive rights in respect of the equity interest in the Target Company;
- e) on or before Completion,
 - i. there being no material adverse change in the operations and financial prospect of the Target Group, and no events that may result or reasonably be expected to cause material adverse change;
 - ii. the representations and warranties given by each of the Vendors and the Target Group Companies were true, accurate and not misleading;
 - iii. the Vendors and the Target Group Companies having complied with and abided by the terms, obligations and conditions under the Sale Purchase Agreement in all material respects;
- f) the Hospital having completed the real property registration for certain properties regarding their conversion from allocated land use rights to granted land use rights;
- g) the Hospital having disposed of service centers as set out in the Sale Purchase Agreement;
- h) the Hospital having obtained the confirmation from the relevant government authorities as to compliance with the relevant advertising regulations;
- i) the Hospital having renewed all relevant licenses under its own name;

- j) the Vendors having granted an interest-free loan to the Target Group Companies, and the Target Group Companies having fully settled all outstanding debt, payables and receivables save as agreed otherwise pursuant to the Sale Purchase Agreement;
- k) the Hospital having entered into employment and non-competition agreements with certain key employees of the Hospital; and
- l) save as set out in the Sale Purchase Agreement or agreed otherwise by the Purchaser, there shall not be any distribution of profits or adjustment of remuneration during the period from June 30, 2017 until the Completion, and the Target Company shall maintain a net asset value not less than the net asset value as at June 30, 2017.

Except for the above Condition (a) and (b), the Purchaser shall have the discretion to waive the Conditions and any waiver so granted may be subject to such Conditions as the Company may deem fit.

Profit Guarantee : The Vendors have guaranteed to the Purchaser that the adjusted net profit (being the audited net profit after deduction of tax and non-recurring profit or loss) of the Hospital and DJ Medicines, on a combined basis, for the year ending December 31, 2017 (the “**2017 Net Profit**”) will be no less than RMB28,000,000 (the “**Guaranteed Profit**”).

The profit guarantee shall be deemed having been fulfilled if the 2017 Net Profit is not less than RMB26,000,000. In the event that the 2017 Net Profit is less than RMB26,000,000, the Vendors shall compensate the Company a sum (the “**Compensation Amount**”) in accordance with the formula below:

$$\text{Compensation Amount} = (\text{Guaranteed Profit} - 2017 \text{ Net Profit}) \times 70\%$$

The mechanism of the Compensation Amount is a commercial decision with reference to (i) the amount of the estimated net profit of the Hospital and DJ Medicines for the year ending December 31, 2017 on a combined basis; and (ii) the price-to-earnings multiple of 24.6 times which falls within the range of the relevant comparable companies. The Purchaser shall serve a notice to the Vendors regarding the Compensation Amount after it has been determined with reference to the audited financial information for the year ending December 31, 2017, the Vendors shall pay the Compensation Amount in cash to the Purchaser within 10 days after receiving such notice.

Long Stop Date : In the event that any of the Conditions is not fulfilled (or waived) on or before the Long Stop Date, being December 31, 2017, or such later date as mutually agreed by the Purchaser and the Vendors, the parties to the Sale Purchase Agreement shall not be bound to proceed with the Acquisition and the Sale Purchase Agreement shall cease to be of any effect save in respect of claims arising out of any antecedent breach of the Sale Purchase Agreement.

Completion : Subsequent to the fulfillment or waiver (as applicable) of all Conditions, the Completion shall take place upon the day that the business license in respect of the Acquisition is issued by the relevant local branch of the State Administration of Industry & Commerce of the PRC.

Call Option : Pursuant to the Sale Purchase Agreement, Xinxiangli Investment granted to the Purchaser an option (the “**Call Option**”) to acquire 30% equity interests owned by Xinxiangli Investment in each of the Hospital, DJ Medicines and DJ Pharmaceutical Technology following Completion (the “**Remaining Interest**”) at a consideration calculated in accordance with the formula below:

$$(RMB483,000,000 \div 70\% \times 30\%) + 10\% \text{ simple interest per annum from date of Completion}$$

The value of the Remaining Interest is calculated with reference to the value of the 70% equity interest in the Hospital, DJ Medicines and DJ Pharmaceutical Technology, being RMB483,000,000, which falls within the range of the Appraised Value as set out in the Valuation Report. The Directors are of the view that the consideration of the Call Option is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Purchaser may exercise the Call Option at any time during the period commencing from the date of the Completion and ending on December 31, 2020, provided that the Call Option and the acquisition of the Remaining Interest are permissible under the then applicable policies, laws and regulations in the PRC and the Listing Rules.

B. INFORMATION OF THE TARGET GROUP

The Target Company is a company established in the PRC with limited liability and is an investment holding company. As of the date of this announcement, the Target Company directly owns 100% equity interest in the Holdco, which in turn directly owns 70% equity interest in each of the Hospital, DJ Medicines and DJ Pharmaceutical Technology. The Hospital is a for-profit TCM general hospital in Zhejiang that features the use of traditional Chinese medicines and provides comprehensive medical services. DJ Medicines is principally engaged in the wholesale of pharmaceutical products. DJ Pharmaceutical Technology owns certain land use rights.

Set out below is the combined financial information of the Target Group for the two financial years ended December 31, 2015 and 2016 and six months ended June 30, 2017.

	For the financial year ended		For the six
	December 31,		months ended
	2015	2016	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	2017
			<i>RMB'000</i>
Revenue	149,782	154,210	73,241
Net profit before taxation	4,186	1,431	12,771
Net profit after taxation	4,186	919	9,529

The audited total asset and net asset value of the Target Group as at June 30, 2017 were approximately RMB260,396,000 and RMB84,833,000, respectively.

C. INFORMATION ON THE GROUP AND THE VENDORS

Information on the Group

The Company was incorporated in Cayman Islands as an exempted company with limited liability, shares of which have been listed on the Stock Exchange since March 16, 2017. The Group is principally engaged in the hospital management business and general hospital business in China.

Information on the Vendors

Mr. Hong Jiangxin owns 99% equity interest in the Target Company and Mr. Hong Yang owns 1% equity interest in the Target Company as at the date of this announcement. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors are third parties independent of and not connected with the Company and its connected persons.

D. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Group is principally engaged in hospital management business and general hospital business in China. It focuses on 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 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 TCM 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 opening of a new medical building in April 2017 also improves 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 enormous 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 prospects, which is expected to enhance the core value of the Company. The Hospital has a sound financial track record and stable business operations. It has consistently maintained stable business operations and profitability prospects, which shows its market 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 Transactions can serve as a model for the Group's future acquisitions.

Subsequent to the Completion, the Enlarged Group will implement the standardized and streamlined management system in the Hospital and DJ Medicines and utilize the platform and resources of the Enlarged Group to improve the management and services quality of the Hospital. The Hospital is also expected to benefit from the experience of the Group in hospital management and operation. The Board considers that the terms of the Sale Purchase Agreement are fair and reasonable and on normal commercial terms. The Board further considers that the Transactions are in the interests of the Company and the Shareholders as a whole.

E. LISTING RULES IMPLICATION

As the highest applicable percentage ratio for the Company in respect of the Transactions, is 25% or more but is less than 100%, the Transactions constitute a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors after all reasonable enquiries have been made, no Shareholders or any of their respective associates have any material interest in the Transactions. As such, no Shareholders would be required to abstain from voting in favour of the resolutions approving the Sale Purchase Agreement and the Transactions. Pursuant to Rule 14.44 of the Listing Rules, the Company may apply the written shareholders' approval in lieu of holding a general meeting of the Company to approve the terms of the Sale Purchase Agreement and the Transactions.

As at the date of this announcement, the Company has obtained a written approval on the Sale Purchase Agreement and the Transactions from Vanguard Glory, which holds 97,000,000 Shares, representing approximately 70.19% of the total number of the issued Shares. As such, the Company is not required to convene a general meeting to consider and approve the Sale Purchase Agreement and the Transactions.

“Appraised Value”	the appraised value of 70% equity interest in the Hospital, DJ Medicines and DJ Pharmaceutical Technology on a combined basis which ranges from RMB402,000,000 to RMB530,000,000 pursuant to the Valuation Report
“Board”	the board of Directors
“Business Day”	a day other than a Saturday, Sunday or public holiday in Hong Kong and the PRC when commercial banks in Hong Kong and the PRC are open for business
“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, the shares of which are listed on the Stock Exchange (Stock Code: 3869)
“Completion”	completion of the Acquisition, as more particularly described under the paragraph “Completion” in this announcement
“Conditions”	the conditions to Completion, as more particularly described under the paragraph “Conditions” in this announcement
“connected person(s)”, “percentage ratio(s)”, “subsidiary(ies)”	each has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration payable by the Purchaser to the Vendors pursuant to the Sale Purchase Agreement, as more particularly described in the paragraph “Consideration” in this announcement
“Director(s) ”	the director(s) of the Company
“DJ Medicines”	Zhejiang Dajia Medicines Co., Ltd.* (浙江大佳醫藥有限公司), a company that is principally engaged in the wholesale of pharmaceutical products, and owned as to 70% by the Holdco and 30% by Xinxiangli Investment

“DJ Pharmaceutical Technology”	Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd.* (建德大家中醫藥科技有限公司), owned as to 70% by the Holdco and 30% by Xinxiangli Investment
“Duff & Phelps China”	D&P China (HK) Limited, an independent valuation specialist
“Enlarged Group”	the Group as enlarged by the Acquisition
“Group”	the Company and its subsidiaries
“Holdco”	Jiande Heyue Enterprise Management Co., Ltd.* (建德和悦企業管理有限公司), a company incorporated in the PRC with limited liability and is wholly-owned by the Target Company
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hospital”	Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* (建德中醫院有限公司), a for-profit TCM general hospital in Zhejiang and owned as to 70% by the Holdco and 30% by Xinxiangli Investment
“Letter of Intent”	a letter of intent dated August 10, 2017 entered into by the Company, details of which were set out in the announcement of the Company dated August 10, 2017
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	being December 31, 2017 or such later date as mutually agreed by the Purchaser and the Vendors
“PRC”	The People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Purchaser”	New Pride Holdings Limited (捷穎控股有限公司), a company incorporated in Hong Kong as a limited liability company and an indirect wholly-owned subsidiary of the Company

“RMB”	Renminbi, the lawful currency of the PRC
“Sale Purchase Agreement”	the sale purchase agreement entered into between the Purchaser and the Vendors on October 27, 2017 in relation to the sale and purchase of the entire equity interest in the Target Company, as more particularly described in the section “The Sale Purchase Agreement” in this announcement
“Shareholder(s)”	the shareholder(s) of the Company
“Share(s)”	the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Jiande Hexu Enterprise Management Co., Ltd.* (建德和煦企業管理有限公司), a company incorporated in the PRC with limited liability and is owned as to 99% by Mr. Hong Jiangxin and 1% by Mr. Hong Yang as at the date of this announcement
“Target Group”	the Target Company and its subsidiaries
“Target Group Companies”	members of the Target Group, and “Target Group Company” shall mean any of them
“TCM”	traditional Chinese medicine
“Transactions”	the Acquisition, the Call Option and the other transactions contemplated under the Sale Purchase Agreement
“Valuation Report”	the valuation report prepared by Duff & Phelps China dated October 27, 2017 in respect of the market value of 70% equity interest in the Hospital, DJ Medicines and DJ Pharmaceutical Technology on a combined basis, using guideline company method of market approach
“Vanguard Glory”	Vanguard Glory Limited, a company incorporated in the British Virgin Islands as a limited liability company and the immediate holding company that holds 70.19% issue share capital of the Company as at the date of this announcement

“Vendors”	Mr. Hong Jiangxin and Mr. Hong Yang
“Xinxiangli Investment”	Zhejiang Xinxiangli Investment Co., Ltd.* (浙江新祥利投資有限公司), a company incorporated under the laws of the PRC with limited liability and held as to 83% by Mr. Hong Jiangxin
“%”	per cent

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

Beijing, China, October 27, 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.

* *For identification purpose only*