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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**

#### **ACQUISITION OF THE ENTIRE EQUITY INTEREST OF CIXI HONGAI MEDICAL MANAGEMENT CO., LTD.**

##### **THE EQUITY TRANSFER AGREEMENT**

The Board is pleased to announce that on February 8, 2018, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with, among others, the Sellers in respect of the Acquisition. Pursuant to Equity Transfer Agreement, the Sellers agreed to sell, and the Purchaser agreed to acquire, the entire equity interest in the Target Company at the Consideration of RMB336 million.

##### **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios calculated under Chapter 14 of the Listing Rules in respect of the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

**As the Completion is subject to the fulfillment (or waiver, as applicable) of a number of conditions precedent under the Equity Transfer Agreement, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.**

## **BACKGROUND**

Reference is made to the announcements of the Company dated November 2, 2017 and December 28, 2017 in relation to the non-binding framework agreement and the legally-binding letter of intent entered into by the Company in relation to the Acquisition. The Board is pleased to announce that on February 8, 2018, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with, among others, the Sellers in respect of the Acquisition. Pursuant to the Equity Transfer Agreement, the Sellers agreed to sell, and the Purchaser agreed to acquire, the entire equity interest in the Target Company at the Consideration of RMB336 million.

## **THE EQUITY TRANSFER AGREEMENT**

The principal terms of the Equity Transfer Agreement are as follows:

**Date** : February 8, 2018 (after trading hours)

**Parties** : a) the Purchaser, an indirect wholly-owned subsidiary of the Company;  
b) the Sellers;  
c) the Target Company;  
d) the Hospital; and  
e) the Holdco.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as of the date of this announcement, the Sellers, the Target Company, the Hospital, the Holdco 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 Sellers have conditionally agreed to sell, the entire equity interest in the Target Company at the Consideration of RMB336 million. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

As of the date of this announcement, Seller A and Seller B directly own 90% and 10% equity interest in the Target Company, respectively, and Seller A and the Target Company directly own 30% and 70% equity interest in the Holdco, respectively. The Holdco is the founder of the Hospital.

**Consideration** : The Consideration under the Equity Transfer Agreement is RMB336 million and shall be settled by the Purchaser to the Sellers in cash in the following manner:

- a) RMB163 million, being the first installment of the Consideration, shall be paid within 10 Business Days after the date upon which the Sellers have given a written notification to the Purchaser pursuant to the Equity Transfer Agreement to confirm the fulfillment (or waiver) of the conditions to the First Completion;
- b) RMB163 million, being the second installment of the Consideration, shall be paid within 10 Business Days after the date upon which the Sellers have given a written notification to the Purchaser pursuant to the Equity Transfer Agreement to confirm the fulfillment (or waiver) of the conditions to the Second Completion; and
- c) RMB10 million, being the deferred payment of the balance of the Consideration (the “**Deferred Payment**”), shall be paid within 10 Business Days from the date which the Sellers have given a written notification to the Purchaser pursuant to the Equity Transfer Agreement to confirm the fulfillment of the Post-Completion Measures (as defined below).

The respective conditions to the First Completion and the Second Completion are set out in the paragraphs “First Completion” and “Second Completion” below. The Post-Completion Measures are set out in the paragraph “Deferred Payment” below. The Consideration shall be funded by the proceeds of the issue of convertible bonds of the Company subject to the fulfillment or, if applicable, waiver of the conditions precedent of the issue of convertible bonds of the Company and banking facilities. For details of the convertible bonds, please refer to the announcement of the Company published on January 25, 2018.

**Basis of the  
Consideration**

: The Consideration was arrived at after arm’s length negotiation among the parties of the Equity Transfer Agreement after taking into account the following major factors:

- a) the historical performance, growth potential and business prospect of the Hospital;
- b) the economic benefits to be materialized by the Target Group from providing management and consultancy services to the Hospital;
- c) the operation metrics and revenue level of the Target Group after entering into the Hospital Management Framework Agreement;
- d) the concentration benefits of having access to medical institutions in Shanghai and the Yangtze Delta area with sizeable population and attractive economic conditions;
- e) the benefit to the Group from expansion of the Group’s market share subsequent to Completion, which will lead to a better market position; and
- f) the other long-term benefits as stated in the section “Reasons for and benefits of the Acquisition”.

The Directors consider that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

**First  
Completion**

: The First Completion shall be conditional upon fulfillment (or waiver, as applicable) of the following conditions:

- a) the articles of association of the Holdco and the Hospital having been confirmed and duly signed by the Sellers and the Purchaser;
- b) the Sellers having issued a confirmation letter to the Purchaser to confirm each of the following:
  - each of the Target Company, the Holdco and the Hospital having disclosed details of all bank loans, guarantees, any form of debts, accounts payable and cash flow activities;
  - all claims and debts as of December 31, 2017 between the Target Company, the Holdco and the Hospital; and the Sellers and their respective related parties, having been fully settled; and
  - (i) the representations and warranties given by the Sellers, the Target Company, the Holdco and the Hospital remain true and accurate; (ii) no prohibited events as set out in the Equity Transfer Agreement having been taken place in any of the Target Company, the Holdco and the Hospital since the date of the Equity Transfer Agreement; and (iii) there is no occurrence of any event which results in material adverse change in any of the Target Company, the Holdco and the Hospital.
- c) the documents as set out in the Equity Transfer Agreement having been delivered to the Purchaser, including but not limited to corporate documents, licenses, approvals, agreements, financial records, details of bank accounts, and other documents and internal records of the Target Company, the Holdco and the Hospital; and
- d) the approval and registration in relation to the Acquisition having been obtained from, or completed with the relevant administrative authority, and pursuant to which the Purchaser having been registered as the sole shareholder of the Target Company.

The parties shall procure the above conditions precedent to be fulfilled (or waived) before June 30, 2018, failing which the parties may agree on another date for the fulfilment of conditions precedent in writing or terminate the Equity Transfer Agreement. Upon fulfillment (or waiver, as applicable) of all conditions precedent, the Sellers shall give a written notification to the Purchaser. The Purchaser shall settle the first installment of the Consideration within 10 Business Days from the date of the written notification. The First Completion shall take place on the first Business Day following the date that the first installment of the Consideration was paid.

**Second  
Completion**

: The Second Completion shall be conditional upon fulfillment (or waiver, as applicable) of the following conditions:

- a) the First Completion having been taken place;
- b) the representations and warranties given by each of the Target Company, the Holdco and the Hospital and each of the Sellers remain true and accurate, and there is no occurrence of any event which results in material adverse change in the Target Company, the Holdco or the Hospital;
- c) the Target Company, the Holdco and the Hospital having obtained the approval from and completed registration with the relevant administrative authority necessary to effect the appointment of directors, supervisors, senior management or other employees in the Target Company, the Holdco and the Hospital as designated by the Purchaser; and
- d) the articles of associations of the Holdco and the Hospital in the form approved by the Sellers and the Purchaser prior to the First Completion having been registered with the relevant authority.

The Second Completion shall take place on the 10th Business Day following the date of the written notifications by the Sellers to the Purchaser confirming the fulfillment of the conditions to the Second Completion.

As of the date of this announcement, none of the conditions precedent to the First Completion or the Second Completion has been fulfilled or waived, and the Company has no intention to waive any of the conditions precedent. The Company will not waive any of the conditions precedent if the waiver of such condition precedent is not fair and reasonable and not in the interest of the Company and its Shareholders as a whole. As a result, the Board does not consider the waiver of such conditions precedent, if any, will affect the substance of the Acquisition.

**Deferred  
Payment**

: The Sellers shall give a written notification to the Purchaser to confirm the fulfillment of certain post-completion measures (the “**Post-Completion Measures**”) during the nine-month period after the First Completion. These Post-Completion Measures are measures to ensure the sustainable business development and business operations in an ordinary and usual course, to the satisfaction of the Purchaser, including but not limited to, the provision of management and consultancy services pursuant to the Hospital Management Framework Agreement having achieved satisfying results in the Hospital and compliance with non-competition undertaking given by the Sellers in favor of the Purchaser.

The Purchaser shall pay the Deferred Payment of RMB10 million within 10 Business Days from the date of the written notification confirming the fulfillment of the Post-Completion Measures.

**INFORMATION ON THE GROUP AND THE SELLERS**

The Company was incorporated in the 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 hospital management business and general hospital business in China.

As of the date of this announcement, the Seller A and the Seller B directly own 90% and 10% equity interest in the Target Company, respectively, and the Seller A and the Target Company directly own 30% and 70% equity interest in the Holdco, respectively. The Holdco is the founder of the Hospital.

## **INFORMATION ON THE TARGET GROUP**

The Target Company is a company established in the PRC with limited liability in November 22, 2017 and is an investment holding company. As of the date of this announcement, the Target Company directly owns 70% equity interest in the Holdco. As the Target Company has been newly established, the profits before and after tax for the two financial years preceding to the signing of the Equity Transfer Agreement are not available, and no profit or loss was recorded for the period from November 22, 2017 (date of establishment) to the date of this announcement. After Completion, the Target Company and the Holdco will become indirect subsidiaries of the Company.

The Holdco, owned as to 70% by the Target Company and 30% by Seller A, is a limited liability company established under the laws of the PRC in November 22, 2017. The Holdco is the founder of the Hospital. The Holdco is a hospital management company and has entered into a 50-year Hospital Management Framework Agreement with the Hospital to provide for the terms of the management and consultancy services as at the date of this announcement. The Hospital is a not-for-profit general hospital in Zhejiang province established in 2003 that provides comprehensive medical services. With reference to the unaudited management account of the Hospital, it recorded RMB107.16 million and RMB115.99 million revenue for the years ended December 31, 2016 and 2017, respectively.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Group is principally engaged in hospital management and general hospital business in China. It focuses on expansions in regions with sizeable populations and attractive economic conditions. The Holdco receives management fees from the Hospital for its management and consultancy services, which will allow the Group to benefit from the business growth of the Hospital. The Hospital, a Class IIB hospital located in Zhejiang province, is in close proximity to the hospitals that the Group manages or operates. The Board believes the core strategic vision of the Hospital aligns with the Group's strategic and business interests in the mid- and long-term to expand its market presence in China and be committed to form a regional medical service centers, through strategic cooperation with hospitals and expansion by mergers and acquisitions. The Company believes that the Hospital has enormous growth potential as it has a large patient base and leading reputations in the area. The Hospital is expanding the scale of its services and operation and constructing a new



building to meet the increasing demand of medical services in the region. The new building will be put into operation in 2018 with a gross floor size of 1,500 square meters, which shall support the operations of two medical departments. The Acquisition could also expand the market presence of the Group's existing business, broaden its customer base, and increase the Group's market shares in China, as well as further improve the brand awareness of the Group in the industry.

In addition, the Acquisition also allows the Group and the Holdco to create a synergistic effect such as shared medical resources and supply chain efficiencies, which in turn strengthens Holdco's ability to expedite the implementation of the expansion plans of the Hospital and optimize the Hospital's operations. For instance, the advanced management system as well as procedures and policies currently implementing in the hospital managed by the Group are effective and efficient to streamline the daily operations of a hospital. Having shared the experience and resources of the Group, the Holdco will be able to develop the untapped growth potential of the Hospital. While the Hospital is experiencing expansion growth, it needs to manage the growth in a systematic and efficient manner. The Holdco has entered into the Hospital Management Framework Agreement with the Hospital effective from February 2, 2018 in relation to the provision of management and consultancy services to the Hospital by the Holdco. The Board believes this arrangement will allow the Hospital to undergo a smooth transition in becoming a strategic partner of the Group's medical platform without diverting the attention of the Hospital management. Pursuant to the Hospital Management Framework Agreement, the Holdco shall, among others, assist the Hospital in (i) establishing a modern management system, (ii) managing its daily operations including procurement and management of pharmaceuticals, medical consumables and medical devices; (iii) establishing a team of medical professionals; and (iv) refining the research and development function and human resources management of the Hospital. The Holdco will, in return for its management and consultancy services, receive management fees from the Hospital. The management fees shall be calculated based on a fixed percentage of the operating income of the Hospital for the relevant year. The Directors believe that the terms of the Acquisition are fair and reasonable, and that entering into the Equity Transfer Agreement is in the interests of the Shareholders as a whole.

## LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated under Chapter 14 of the Listing Rules in respect of the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

**As the Completion is subject to the fulfillment (or waiver, as applicable) of a number of conditions precedent under the Equity Transfer Agreement, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.**

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

|   |  |
|---|--|
| “Acquisition”   | the acquisition of the entire equity interest in the Target Company and the transactions contemplated under the Equity Transfer Agreement  |
| “Board”   | the board of Directors   |
| “Business Day”  | a day other than a Saturday, Sunday or public holiday in the PRC   |
| “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 contemplated under the Equity Transfer Agreement  |
| “connected person(s)”,<br>“percentage ratio(s)”,<br>“subsidiary(ies)” | each has the meaning ascribed to it under the Listing Rules  |
| “Consideration”   | the consideration payable by the Purchaser to the Sellers pursuant to the Equity Transfer Agreement, as more particularly described in the paragraph “Consideration” in this announcement          |

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|---|---|
| “Director(s) ”                            | the director(s) of the Company  |
| “Equity Transfer Agreement”               | the agreement entered into between the Purchaser, the Sellers, the Target Company, the Holdco and the Hospital on February 8, 2018 in relation to the sale and purchase of the entire equity interest in the Target Company, as more particularly described in the section “The Equity Transfer Agreement” in this announcement |
| “First Completion”                        | the first completion conditional upon the fulfillment (or waiver) of all conditions to the First Completion, as more particularly described in the paragraph “First Completion”   |
| “Group”                                   | the Company and its subsidiaries  |
| “HK\$”                                    | Hong Kong dollars, the lawful currency of Hong Kong   |
| “Holdco”                                  | Cixi Honghe Medical Management Co., Ltd.* (慈溪弘和醫療管理有限公司), a company incorporated in the PRC with limited liability and is owned as to 70% by the Target Company and 30% by Seller A as at the date of this announcement   |
| “Hong Kong”                               | the Hong Kong Special Administrative Region of the People’s Republic of China   |
| “Hospital”                                | Cixi Union Hospital* (慈溪協和醫院), a not-for-profit general hospital in Zhejiang province   |
| “Hospital Management Framework Agreement” | the framework agreement entered into between the Hospital and the Holdco in relation to the management and consultancy services to be provided by the Holdco to the Hospital with a term of 50 years, as more particularly described in the section “Reasons for and Benefits of the Acquisition”                               |
| “Listing Rules”                           | The Rules Governing the Listing of Securities on the Stock Exchange   |
| “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  |
| “Seller A”       | Mi Yuehua   |
| “Seller B”       | Chen Yuegen   |
| “Sellers”        | Seller A and Seller B   |
| “Shareholder(s)” | the shareholder(s) of the Company   |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited   |
| “Target Company” | Cixi Hongai Medical Management Co., Ltd.* (慈溪弘愛醫療管理有限公司), a company incorporated in the PRC with limited liability and is owned as to 90% by Seller A and as to 10% by Seller B as at the date of this announcement |
| “Target Group”   | the Target Company and its subsidiaries   |
| “%”              | per cent  |

\* *Translation for identification purpose only.*

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

Beijing, China, February 8, 2018

*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.*