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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 IN RELATION TO THE SUPPLEMENTAL
AGREEMENT TO THE HOSPITAL MANAGEMENT
FRAMEWORK AGREEMENT**

Reference is made to the announcement of Hospital Corporation of China Limited (the “**Company**”) dated February 8, 2018 (the “**Announcement**”) in relation to the acquisition of the entire equity interest of Cixi Hongai Medical Management Co., Ltd.* (慈溪弘愛醫療管理有限公司) (the “**Target Company**”) (the “**Acquisition**”). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

BACKGROUND

The Holdco, owned as to 70% by the Target Company and 30% by the Seller A as of the date of this announcement, 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 the Announcement.

**SUPPLEMENTAL AGREEMENT TO THE HOSPITAL MANAGEMENT
FRAMEWORK AGREEMENT**

The Holdco further entered into a supplemental agreement to the Hospital Management Framework Agreement on March 7, 2018 (the “**Supplemental HMFA**”). Based on the Supplemental HMFA, the Hospital and the Holdco further agreed that the service fees for the year ending December 31, 2018 shall be equal to no less than 15% and no more than 20% of the annual revenue of the Hospital. The specific rate of the fee shall be agreed in the Annual Service Agreement of 2018. The Holdco is

in the process of negotiation with the Hospital in respect of the Annual Service Agreement for 2018 to set out detailed terms of the management and consultancy services, including but not limited to the payment terms and the calculation mechanism with reference to the performance indicators.

The Board believes the arrangement of entering into the Annual Service Agreement with specific terms on an annual basis is consistent with the market practice. As advised by the PRC legal advisors of the Company, the Hospital Management Framework Agreement and the Supplemental Hospital Management Framework Agreement are legal, valid and enforceable under Chinese law, which creates a binding contractual obligation on both the Holdco and the Hospital to enter into the Annual Service Agreements and provides that the Service Fee Percentage shall fall within the industry norm.

In addition, as one of the conditions precedent to the Second Completion, the Hospital shall have obtained the approval from and completed the registration with relevant administrative authorities necessary to effect the appointment of directors, supervisors, senior management or other employees in the Target Group and the Hospital as designated by the Purchaser. The Holdco can achieve influence in the Hospital through the right to nominate and appoint five out of six members of the executive committee in the Hospital, while the Purchaser is entitled to appoint four members through the Holdco. Among these executive committee members nominated and appointed by the Holdco, one of them shall become the chairman of the executive committee. The Purchaser is also entitled to appoint the hospital administrator and finance manager of the Hospital, as well as one of the two supervisors of the Hospital. Therefore, having considered the Enlarged Group's role in the governance structure of the Hospital, its influence in the management, operation and governance of the Hospital, the Group's sufficient knowledge and experience in the hospital market and in identifying the industry norm in respect of management fee, and the binding contractual obligation of the Holdco and the Hospital to enter into the Annual Service Agreement under the Hospital Management Framework Agreement, the Board believes the Hospital and the Holdco will be able to arrive at commercially reasonable and fair terms in the respective Annual Services Agreement during the 50-year duration under the Hospital Management Framework Agreement to honor the Holdco's services on a continuous basis, which is commercially beneficial and profitable to the Company.

ADDITIONAL INFORMATION ON THE HOSPITAL

The Company engaged a reputable accounting firm (the “**Accounting Firm**”) to conduct analysis on the historical financials of the Hospital as part of the due diligence process. The Accounting Firm has analyzed the unaudited management accounts of the Hospital for the years ended December 31, 2015, 2016 and 2017, which prove that the Hospital maintained stable growth in its revenues and profits during such period. Despite the Target Group is newly established, the Board believes the service fees from the Hospital will be the primary income stream of the Holdco in the foreseeable future, hence the historical performance, growth potentials and business prospects of the Hospital are critical elements in assessing the revenue level of the Target Group. The Hospital demonstrated stable business development and solid historical growth, and it is constructing a new building to meet the increasing demand of medical services in the region. Together with the management and consultancy services that the Holdco provides, the Board believes the Hospital will continue to experience expansion growth in the future.

The table below sets out financial information of the Hospital with reference to the unaudited management account:

	As of December 31,	
	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Total Asset	71,996	101,496
Net Asset Value	35,364	58,709

	For the year ended	
	December 31,	
	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	107,160	115,990
Gross profit	37,430	42,066
Net profit	20,280	23,345

Besides the direct economic benefit to be materialized by the Target Group, the Hospital is constructing a new building to meet the increasing demand for medical services in the region. Together with the management and consultancy services that the Holdco provides, the Board believes the Hospital will continue to experience expansion growth in the future. In addition, the hospitals own or manage by the Target Group (including the Hospital), through the provision of management and

consultancy services to the Hospital by the Holdco, will enjoy the synergistic benefits derived from the strategic cooperation with the Hospital by combining (i) the strengths and capabilities of the Hospital; (ii) the strengths and capabilities of the hospitals that the Group owns or manages; and (iii) the management and investment expertise of the Group as enlarged by the Acquisition (the “**Enlarged Group**”). For example, the Enlarged Group can enjoy the resultant economies of scale in the procurement of pharmaceuticals, medical consumables and medical devices, which in turn enhance its revenue level.

Having considered the factors mentioned above and set out in the Announcement, and having assessed the economic and other benefits from 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.

FURTHER INFORMATION ON THE TARGET GROUP

The Hospital was established in December 2003 by Seller A. Seller A had been the founder (舉辦人) of the Hospital until November 23, 2017. The Holdco was established to facilitate the Acquisition and to provide management and consultancy services to the Hospital through a corporate structure, following which, the Holdco was registered as the founder of the Hospital on November 23, 2017 in accordance with the applicable laws and regulations in China, and entered into the Hospital Management Framework Agreement.

Based on the latest management account of the Holdco, the net assets value of the Holdco as of December 31, 2017 was RMB100,000.

Upon the completion of the Acquisition, the Seller A will continue to own 30% in the Holdco. As of the date of this announcement, the Seller A has not entered into any shareholder agreement or other agreement with the Target Company or the Holdco.

** Translation for identification purpose only.*

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

Beijing, March 7, 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.