THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hospital Corporation of China Limited, you should at once hand this circular to the purchaser or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

弘和仁愛
HOSPITAL CORPORATION

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 AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN ORIENTAL ALLY HOLDINGS LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to Hospital Corporation of China Limited

SOMERLEY CAPITAL LIMITED

Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders

AMASSE CAPITAL
寶 積 資 本

All capitalised terms used in this circular have the meaning set out in the section "Definitions" of this circular. A letter from the Board containing details of the Proposed Acquisition and the Specific Mandate is set out on pages 9 to 46 of this circular, a letter from the Independent Board Committee is set out on pages 47 to 48 of this circular and a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders are set out on pages 49 to 74 of this circular.

A notice convening the EGM to be held at 1602, Tower B, Jin Qiu International Building, No. 6, Zhichun Road, Haidian District, Beijing, PRC at 10:00 a.m. on July 10, 2018 is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM (or any adjourned meeting thereof) in person should you so desire.

June 24, 2018

CONTENTS

In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

"Abstained Directors"	Mr. Zhao John Huan and Mr. Lin Sheng, who are deemed to have material interests in the Proposed Acquisition by virtue of their positions in the Vendor and/or the Target Group, have abstained from voting on the relevant board resolutions approving the Share Purchase Agreement and the Proposed Acquisition;
"Announcement"	the announcement of the Company dated May 29, 2018 in relation to the Proposed Acquisition;
"Appraised Value"	the appraised value of the Target Company with a range from RMB592 million to RMB678 million as at December 31, 2017 pursuant to the Valuation Report;
"Board"	the board of Directors;
"Bondholder(s)"	holder(s) of the Convertible Bonds;
"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;
"Cixi Acquisition"	the acquisition of the entire equity interest Cixi Hongai Medical Management Co., Ltd.* (慈溪弘愛醫療管理有限公司), which directly owns 70% equity interest in a hospital management company providing management and consultancy services to Cixi Union Hospital* (慈溪協和醫院), a not-for-profit general hospital in Zhejiang province;
"Class II Hospital"	the regional hospitals designated as Class II hospitals by the NHFPC hospital classification system, typically having 100 to 500 beds in operation, providing multiple communities with integrated healthcare services and undertaking certain academic and scientific research missions;
"Class IIB Hospital"	each Class II Hospital can be further divided into A, B and C. Class IIB hospitals are the second tier hospitals among Class II Hospitals in China;

"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;
"Class IIIB Hospital"	each Class III Hospital can be further divided into A, B and C. Class IIIB hospitals are the second tier hospitals among Class III hospitals in China;
"close associates", "connected person(s)", "percentage ratios", "subsidiary(ies)"	each has the meaning ascribed to it under the Listing Rules;
"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 Proposed Acquisition as more particularly described in the paragraph "Completion" under the section "B. The Share Purchase Agreement" in the Letter from the Board in this circular;
"Conditions"	the conditions to Completion, as more particularly described under the paragraph "Conditions" under the section "B. The Share Purchase Agreement" in the Letter from the Board in this circular;
"Consideration"	the consideration of RMB630 million (equivalent to approximately HK$773,879,717) payable by the Company to the Vendor pursuant to the Share Purchase Agreement, as more particularly described in the paragraph "Consideration" under the section "B. The Share Purchase Agreement" in the Letter from the Board in this circular;
"Conversion Price"	the conversion price for the allotment and issue of one Conversion Share upon the exercise of the Conversion Rights attaching to the Convertible Bonds, subject to adjustments under the terms and conditions of the Convertible Bonds, as more particularly described in the paragraph "Conversion Price" under the section "C. The Convertible Bonds" in the Letter from the Board in this circular;
"Conversion Rights"	the rights of the Bondholders to convert the Convertible Bonds into Shares;

"Conversion Share(s)"	the Shares to be allotted and issued by the Company upon conversion of the Convertible Bonds;
"Convertible Bonds"	the convertible bonds due on the Maturity Date in the aggregate principal amount of HK$773,879,717, to be issued by the Company on Completion pursuant to the Share Purchase Agreement, as more particularly described in the section "C. The Convertible Bonds" in the Letter from the Board in this circular;
"Current Market Price"	in respect of a Share at a particular time on a particular date, means the average of the daily volume-weighted average price of one Share for the five consecutive trading days in the Stock Exchange immediately preceding such date;
"Director(s)"	the director(s) of the Company;
"Dongyang Hospital"	Dongyang Guangfu Hospital* (東陽廣福醫院), a Privately-funded Non-enterprise Entity established on June 5, 2012 and a hospital founded by Guangsha Medical and Hangzhou Linglan Industrial Co., Ltd.* (杭州鈴藍實業有限公司);
"Duff & Phelps China"	D&P China (HK) Limited, an independent valuation specialist;
"DJ Acquisition"	the acquisition of Jiande Hexu Enterprise Management Co., Ltd.* (建德和煦企業管理有限公司), details of which are set out in the announcement of the Company dated July 4, 2017, August 10, 2017 and October 27, 2017 and the circular of the Company dated December 15, 2017;
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Proposed Acquisition and the Specific Mandate;
"Enlarged Group"	the Group as enlarged by the Proposed Acquisition;
"Group"	the Company and its subsidiaries;
"Guangsha Medical"	Zhejiang Guangsha Medical Technology Co., Ltd* (浙江廣廈醫療科技有限公司), a limited liability company established under the laws of the PRC and held as to 75% by the Holdco and as to 25% by Kangshou;

"Guangsha Minority Shareholders"	Hony 2015 (Shenzhen) Equity Investment Funds Center (Limited Partnership)* (弘毅貳零壹伍(深圳)股權投資基金中心(有限合夥)), Hony Capital Management (Tianjin) (Limited Partnership)* (弘毅投資管理(天津)(有限合夥)) and Kangshou;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Holdco"	Impeccable Success Limited (成臻有限公司), a limited liability company established under the laws of Hong Kong, and a wholly-owned subsidiary of the Vendor prior to Completion;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Hony Capital"	a series of private equity investment funds, together with their respective management companies/general partners;
"Hony Fund V"	Hony Capital Fund V, L.P., an exempted limited partnership formed in the Cayman Islands on August 10, 2011;
"Hospitals"	Jinhua Hospital, Dongyang Hospital and Yongkang Hospital;
"Hospital Management Agreement 2017"	the hospital management agreement entered into between Guangsha Medical and Jinhua Hospital in 2017 pursuant to the Hospital Management Letter of Intent;
"Hospital Management Letter of Intent"	the hospital management letter of intent entered into by, among others, Guangsha Medical and Jinhua Hospital in 2017 in relation to the provision of hospital management services by Guangsha Medical to Jinhua Hospital;
"Independent Board Committee"	an independent committee of the Board, comprising of all independent non-executive Directors, established for the purpose of advising the Independent Shareholders in respect of the Proposed Acquisition (incluidng the allotment and issue of Convertible Bonds as contemplated under the Share Purchase Agreement) and the Specific Mandate;
"Independent Financial Adviser" or "Amasse"	Amasse Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), who has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition and the Specific Mandate;

"Independent Shareholders"	the Shareholders other than those that are required under the Listing Rules to abstain from voting on the resolution(s) to be proposed at the EGM
"Jinhua Hospital"	Zhejiang Jinhua Guangfu Oncological Hospital* (浙江金華廣福腫瘤醫院), a Privately-funded Non-enterprise Entity established on July 25, 2000 and a hospital founded by Guangsha Medical, Hangzhou Linglan Industry Co., Ltd* (杭州鈴藍實業有限公司) and Hangzhou Dingsheng Industry Co., Ltd* (杭州頂盛實業有限公司) and managed by Guangsha Medical;
"JV Agreement"	the joint venture agreement dated April 28, 2016 entered into between the Holdco and Kangshou in relation to their shareholdings in Guangsha Medical;
"Kangshou"	Hony Kangshou Management Consulting (Shanghai) Co., Ltd.* (弘毅康壽管理諮詢(上海)有限公司), a limited liability company established under the laws of the PRC and held as to 99.9% by Hony 2015 (Shenzhen) Equity Investment Funds Center (Limited Partnership)* (弘毅貳零壹伍(深圳)股權投資基金中心(有限合夥)) and 0.1% by Hony Capital Management (Tianjin) (Limited Partnership)* (弘毅投資管理(天津)(有限合夥));
"Last Trading Day"	May 28, 2018, being the last full trading day for the Shares before the date of entering into the Share Purchase Agreement;
"Latest Practicable Date"	June 21, 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Long Stop Date"	being December 31, 2018 or such later date as may be agreed by parties to the Share Purchase Agreement, as more particularly described in the paragraph "Long Stop Date" under section "B. The Share Purchase Agreement" in the Letter from the Board in this circular;
"Maturity Date"	the date falling on the fifth (5th) anniversary of the date of issue of the Convertible Bonds, and if that is not a Business Day, the Business Day immediately following such date;

"Midpoint Honour"	Midpoint Honour Limited, a limited liability company incorporated in the British Virgin Islands and indirectly owned as to 83.33% by Mr. Zhang Xiaopeng;
"Net Profit"	for any fiscal year, means the audited profit after deduction of tax and non-recurring profit or loss and excluding all income or loss generated from activities outside the ordinary and usual course of business, prepared in accordance with international financial reporting standards for such fiscal year;
"NHFPC"	the National Health Commission of the PRC (中華人民共和國國家衛生健康委員會), which was reorganized from the former Ministry of Health of the PRC and National Population and Family Planning Commission in March 2013;
"Person"	an individual, body corporate, partnership, trust, company, association, joint venture, governmental entity or other entity;
"PRC" or "China"	The People's Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan);
"Privately-funded Non-enterprise Entity"	an entity which is established by enterprises, institutions, associations or other civic entities as well as individual citizens using non-state assets and conduct not-for-profit social service activities;
"Proposed Acquisition"	the acquisition of the entire share capital in the Target Company and the transactions contemplated under the Share Purchase Agreement, including the issue of the Convertible Bonds and allotment and issue of the Conversion Shares upon exercise of the Conversion Rights attaching to the Convertible Bonds;
"Public Float"	the Shares held in the public hands, including the Shares beneficially owned by the Shareholders other than any core connected person of the Company or any person whose acquisition of securities has been financed directly or indirectly by such core connected person or who is accustomed to take instructions in relation to the acquisition, disposal, voting or other disposition of securities of the Company registered in his name or otherwise held by him;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;

"Share Purchase Agreement"	the share purchase agreement entered into between the Company and the Vendor on May 29, 2018 in relation to the sale and purchase of the entire issued share capital in the Target Company, as more particularly described in the section "B. The Share Purchase Agreement" in this circular;
"Shareholder(s)"	the shareholder(s) of the Company;
"Share(s)"	the ordinary share(s) of the Company;
"Specific Mandate"	the specific mandate to be sought from the Independent Shareholders at the EGM and to be granted to the Directors for the allotment and issue of the Conversion Shares upon exercise of the Conversion Rights attaching to the Convertible Bonds;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs;
"Target Company"	Oriental Ally Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is owned as to 100% by the Vendor prior to Completion;
"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;
"Undertaking Letter"	the undertaking letter to be executed by the Company in favour of the Guangsha Minority Shareholders at Completion in relation to the Company's undertaking to acquire (subject to certain conditions) the remaining 25% equity interests in Guangsha Medical held by Kangshou;
"USD"	US dollars, the lawful currency of the United States;
"Valuation Report"	the valuation report prepared by Duff & Phelps China dated June 24, 2018 in respect of the market value of the Target Group using guideline company method and guideline transaction method of market approach, a copy of which is set out in Appendix V to this circular;
"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% issued share capital of the Company as at the Latest Practicable Date;

"Vendor"	Hony Capital Fund VIII (Cayman), L.P., an exempted limited liability partnership which is ultimately managed and controlled by Hony Capital Fund VIII GP (Cayman) Limited;
"Yongkang Hospital"	Yongkang Hospital* (永康醫院), a public institution established on April 21, 2015 and a hospital founded by Guangsha Medical and Yongkang Medical Investment Co., Ltd.* (永康市醫療投資有限公司) (on behalf of Health and Family Planning Bureau of Yongkang); and
"%"	per cent.

* *for identification purpose only*

Unless indicated otherwise in this circular, the conversion of RMB into Hong Kong dollars in this circular is based on the exchange rate of HK$1 to RMB0.81408. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures. Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

The English names of the PRC nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese names prevail.

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)

Executive Director:
Mr. Lu Wenzuo

Non-executive Directors:
Mr. Zhao John Huan *(Chairman)*
Mr. Lin Sheng
Ms. Liu Lu
Ms. Wang Nan

Independent Non-executive Directors:
Ms. Chen Xiaohong
Mr. Shi Luwen
Mr. Zhou Xiangliang

Registered office:
Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Head office in the PRC:
Hospital Corporation of China Limited
1602, Tower B, Jin Qiu International Building
No. 6, Zhichun Road, Haidian District, Beijing
The People's Republic of China

Principal place of business in Hong Kong:
Suite 2701, One Exchange Square
Central
Hong Kong

June 24, 2018

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN ORIENTAL ALLY HOLDINGS LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A. INTRODUCTION

Reference is made to the Announcement.

On May 29, 2018, the Company and the Vendor entered into the Share Purchase Agreement, pursuant to which the Company conditionally agreed to acquire the entire issued share capital of the Target Company from the Vendor at the Consideration of RMB630 million (equivalent to approximately HK$773,879,717), which shall be satisfied by the issue of the Convertible Bonds by the Company to the Vendor (or such Person as the Vendor may nominate) on Completion.

The purpose of this circular is to provide you with, among others, (i) further details of the Proposed Acquisition (including the issue of Convertible Bonds and the allotment and issue of the Conversion Shares upon exercise of the Conversion Rights attaching to the Convertible Bonds) and the Specific Mandate; (ii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) financial information of the Group; (v) accountant's report and management discussion and analysis of the Target Group; (vi) the unaudited pro forma financial information of the Enlarged Group upon completion of the Proposed Acquisition; (vii) the Valuation Report; and (viii) a notice of the EGM.

B. THE SHARE PURCHASE AGREEMENT

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

Date : May 29, 2018 (after trading hours of the Stock Exchange)

Parties : a) the Company as purchaser; and

b) the Vendor as seller.

As at the Latest Practicable Date, the Company is held as to 70.19% by Vanguard Glory, a subsidiary of Hony Fund V, and Hony Fund V is managed by Hony Capital Fund V GP Limited. The Vendor is managed by Hony Capital Fund VIII GP (Cayman) Limited. Both Hony Capital Fund V GP Limited and Hony Capital Fund VIII GP (Cayman) Limited are investment management companies of Hony Capital.

Subject Matter : The Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the entire issued share capital in the Target Company. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company.

As at the Latest Practicable Date, the Target Company indirectly owns 75% share capital in Guangsha Medical, which is one of the founders of the Hospitals and manages Jinhua Hospital pursuant to the Hospital Management Letter of Intent and the Hospital Management Agreement 2017.

Further information of the Target Group is set out below in the paragraph "F. Information of the Target Group and the Hospitals".

Consideration : The Consideration shall be RMB630 million (equivalent to approximately HK$773,879,717) and shall be satisfied by issue of the Convertible Bonds in the total amount of HK$773,879,717 by the Company to the Vendor (or such Person as the Vendor may nominate) on Completion.

The key terms of the Convertible Bonds are set out below in the paragraph "C. The Convertible Bonds".

Following the arm's length negotiation between the Company and the Vendor, both parties considered it mutually beneficial to settle the Consideration in the form of equity consideration based on various factors, including (i) the Vendor, as an investment fund, takes a positive view both on the long term outlook of the healthcare industry and the future performance of the Group, which has been striving for establishment and development of a centralized and large-scale hospital management group and medical service platform; (ii) the Vendor holds certain equity investments in its portfolio companies, including certain listed companies, with principal businesses in the manufacturing of pharmaceutical products and medical equipment, and the Company believes that introducing the Vendor as a shareholder of the Company will create a potential synergistic effect with the Company's hospital business in terms of procurement of pharmaceutical products and medical equipment; and (iii) both the Company and the Vendor are positive on the growth potential of the Target Group, which will enlarge the revenue base of the Company, enhance the investment portfolio of the Company and generate investment returns for the Company and its Shareholders as a whole. The Company also considered issuing of consideration shares as alternative method to settle the Consideration, but due to the minimum Public Float requirement under the Listing Rules, the Company is not able to issue sufficient consideration Shares to settle the Consideration. In addition, the Board does not consider bank facilities as a commercially desirable financing method for the Company in the settlement of the Consideration, given that (i) the Company does not have sufficient assets for obtaining bank facilities; and (ii) bank facilities would impose additional financing costs on the Company.

In light of the above and considering that (i) the Convertible Bonds bear no interest which will not impose financing costs on the Company, and are issued at the Conversion Price which the Company considers to be fair and reasonable (as further explained under paragraph "C. The Convertible Bonds — Conversion Price" in this circular); and (ii) despite the potential dilution effect upon conversion of the Convertible Bonds by the Bondholders, the issue of Convertible Bonds will not have an immediate dilution impact to the Company's minority Shareholders, the Board considers the settlement of the Consideration by way of issue of the Convertible Bonds is the preferred method as compared to other alternatives, and is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Refundable Deposit : Within two weeks of the date of the Share Purchase Agreement, the Company shall deposit RMB50,000,000, being a refundable deposit (the "**Deposit**"), into an escrow account under the name of the Vendor or its subsidiary, to which the Company shall be a joint signatory. The Deposit shall be refunded in full to the Company if (1) the Share Purchase Agreement is completed pursuant to its terms; (2) any of the Conditions is not fulfilled or waived in accordance with the Share Purchase Agreement before the Long Stop Date; or (3) the Share Purchase Agreement is terminated according to its terms.

Basis of consideration : The Consideration was arrived at after arm's length negotiations between the Vendor and the Company after taking into account of the following factors:

(a) the Company primarily relied on the Appraised Value of the Target Company pursuant to the Valuation Report with a range from RMB592 million to RMB678 million as at December 31, 2017;

(b) the Company also checked the fairness and reasonableness of the Consideration by referring to the price-to-earnings multiples ("**P/E Multiples**") represented by (a) the comparable companies that primarily provide hospital management services or found hospitals in China and share similar business model with the Target Group (the "**Comparable Companies**"); and (b) comparable transactions which involved acquisitions completed in the past three years where the target companies are companies or hospitals in the industry of provision of general hospital and clinical services in the PRC (the "**Comparable Transactions**").

The healthcare industry in China has recently undergone reform and has seen active listings, mergers and acquisitions in the past three years. Rapid evolvement and changes are the new and recent norms of this industry. As a result, the P/E Multiples, which varies with the characteristics of each comparable company and are specific to each comparable transaction based on the intentions and bargaining powers of the relevant transaction parties, span across a relatively wide range. The Company selected the average and median value of the P/E Multiples as benchmarks in assessing whether the P/E Multiple reflected by the Consideration is fair and reasonable;

(c) in addition, the Company took into consideration of (a) the historical financial performance of the Target Group; (b) the future prospects of Guangsha Medical and potential economic benefits from providing management services to Dongyang Hospital and Yongkang Hospital; and (c) the benefits to be derived by the Group from the synergistic effects, the resultant economies of scale arising from the Proposed Acquisition and other factors as described under the paragraph "I. Reasons for and Benefits of the Proposed Acquisition and the Future Prospect of the Target Group" below.

(i) Appraised Value according to Valuation Report

The Company has engaged Duff & Phelps China to prepare the Valuation Report on the Target Group, a copy of which is set out in Appendix V to this circular. According to the Valuation Report, the Appraised Value of the Target Company ranges from RMB592 million to RMB678 million as at December 31, 2017. The Valuation Report is prepared using the market approach based on the adjusted net profit for the year ended December 31, 2017 of Guangsha Medical. The adjusted net profit represented net profit plus non-recurring professional service fees in relation to the Proposed Acquisition. The Valuation Report adopted (i) the guideline company method and used a market multiple for valuing the share capital by computing the multiple for the guideline companies adjusting for a control premium and lack of marketability discount, and (ii) the guideline transaction method using the price multiples of selected guideline transactions. The product of adjusted net profit of Guangsha Medical and selected multiples, which are derived from the guideline company method and the guideline transaction method respectively, was then multiplied by the Target Company's shareholding percentage of 75%, and added excess cash and non-operating assets held by the Target Company and Holdco to arrive at the value of the equity interest of the Target Group. The Board has reviewed and discussed with Duff & Phelps China the key valuation methodologies, bases and assumptions adopted in the Valuation Report and believes these methodologies, bases and assumptions are fair and reasonable having considered the followings factors:

(a) Duff & Phelps China considered all three commonly adopted valuation approaches when preparing the Valuation Report, namely, cost approach, income approach and market approach, and selected the market approach because by using market observable inputs and financial results of the Target Company, the market approach provides a more objective indication of the market value of the Target Company. The Board agrees that the market approach is suitable for the valuation of the Target Company;

(b) Duff & Phelps China has chosen and the Board has reviewed the selection criteria of Comparable Companies and Comparable Transactions as well as the selection results, the details of which are set out in the Valuation Report as set out in Appendix V to this circular and as described in paragraphs headed "— (ii) P/E Multiple of Comparable Companies" and "— (iii) P/E Multiple of Comparable Transactions" below. The Board considered such criteria appropriate for identifying companies and transactions comparable to the Target Company and the Proposed Acquisition respectively;

(c) when identifying comparable companies and transactions, calculating multiples and determining key assumptions for determining the discount for lack of marketability and control premium, Duff & Phelps China principally used market data from external sources, including Bloomberg, Mergermarket and public filings of the comparable companies, which are commonly used by valuation practitioners;

(d) Duff & Phelps China made adjustment for lack of marketability and control premium in accordance with the International Valuation Standards. In particular,

- in determining the discount for lack of marketability, Duff & Phelps China applied option pricing method, which the Board noted is a commonly used method for calculating discount for lack of marketability under the International Valuation Standards; in addition, the Board understands from Duff & Phelps China that the basis of assumptions used in option pricing method are consistent with the characteristics of the Target Company and the Proposed Acquisition;

- in determining the control premium, Duff & Phelps China extracted from Bloomberg the information of mergers and acquisitions in the healthcare industry for the recent three years. The Board understands from Duff & Phelps China that three years observation period was used in order to reflect impact of the recent changes in the market environment, the merger and acquisition activities and market sentiments on pricing of similar Chinese hospital operators. The Board agrees that such selection criteria reflects the recent situation in the Chinese healthcare market.

(ii) P/E Multiple of Comparable Companies

The Company has also carried out an analysis based on comparable companies. In particular, the Company has identified and reviewed, to the best of its knowledge and ability, the P/E Multiples represented by the Comparable Companies, which are (1) public companies listed in Hong Kong with principal place of operation in the PRC (which is the same as the principal place of business of the Company), and (2) companies that primarily provide hospital management services or found hospitals in China and share similar business model with the Target Group. The Board considers such selection criteria appropriate for identifying comparable companies. Details of the Comparable Companies are set out as below:

Name	Stock Code	Exchange where the stock is listed	Principal business activities	P/E Multiples(1)
New Century Healthcare Holding Co. Limited	1518	Hong Kong	New Century Healthcare Holding Co. Limited is principally engaged in the provision of medical services in pediatrics and obstetrics and gynecology in Beijing, the PRC.	56.31x
Guangdong Kanghua Healthcare Co., Ltd.	3689	Hong Kong	Guangdong Kanghua Healthcare Co., Ltd. Is a China-based company principally engaged in the operation of hospitals, provision of hospital management services and sales of pharmaceutical products in the PRC.	20.64x
Rici Healthcare Holdings Limited	1526	Hong Kong	Rici Healthcare Holdings Limited is principally engaged in the provision of general hospital services, specialty hospital services and medical examination services in the PRC.	N/A(2)
Wenzhou Kangning Hospital Co., Ltd.	2120	Hong Kong	Wenzhou Kangning Hospital Co., Ltd. operates and manages a network of healthcare facilities across various regions in China that primarily focus on providing psychiatric specialty care.	48.72x
Harmonicare Medical Holdings Limited	1509	Hong Kong	Harmonicare Medical Holdings Limited is principally engaged in the provision of specialised hospital services, especially in obstetrics and gynaecology and supply chain business in the PRC.	53.53x

Name	Stock Code	Exchange where the stock is listed	Principal business activities	P/E Multiples[(1)]
China Resources Phoenix Healthcare Holdings Company Limited	1515	Hong Kong	China Resources Phoenix Healthcare Holdings Company Limited, formerly Phoenix Healthcare Group Co. Ltd., is an investment holding company principally engaged in the provision of general healthcare services, hospital management and consulting services, group purchasing organisation business and other hospital-derived services in mainland China.	25.65x

Note:

(1) The P/E Multiples of the Comparable Companies were derived from the information published on Bloomberg as at May 8, 2018.

(2) The entity recorded loss after taxation for the latest financial year.

As the P/E Multiple represented by the Consideration is approximately 31.4 times, which is lower than the average value of 40.97 times and the median value of 48.72 times represented by the Comparable Companies, the Company considers the Consideration for the Company as purchaser in the Proposed Acquisition to be fair and reasonable in this regard.

The Board believes that the Comparable Companies share similar business model with the Target Group, and reflect the current market consideration of companies operating in the same domain. The Board is aware that the Comparable Companies are all listed companies whose shares are traded on the Stock Exchange. The Target Company is not a public company, and thus its shares would not enjoy the benefit of marketability similar to the above Comparable Companies, yet there is no public and direct assessment of the fair market value of the Target Company itself. The Board understands that it is a market practice to derive a fair market value of a private company based on the P/E Multiples of a comparable group of listed companies. The Board is also aware of the control premium, being the additional value inherent in the controlling interest. To the best knowledge and information of the Directors, the P/E Multiples of the Comparable Companies, based on the above criteria, are exhaustive and serve as fair and representative samples for the purpose of the Proposed Acquisition. The Board therefore considers the above analysis sufficient and meaningful for the Board to form an observation and meaningful comparison with the Proposed Acquisition.

(iii) P/E Multiple of Comparable Transactions

The Company has further taken into account the implied P/E Multiples of the Comparable Transactions. The Comparable Transactions are relatively recent transactions completed over the past three years with the transaction particulars publicly available, and are also transactions involving acquisition of target companies in the industry of provision of similar hospital and clinical services in China as the Target Group. As a result of the healthcare reform in China, there has been an increasing numbers of hospital operators in China pursuing IPO in Hong Kong during the past three years, which in turn stimulated investors' interest in mergers and acquisitions in this sector. The Board considers a three-year period is reasonable for conducting comparable analysis in order to reflect the recent environment, the trend of merger and acquisition activities in the healthcare industry in China, as well as the recent market sentiments on the pricing of hospital operators in China. In light of above, the Board considers the selection criteria appropriate for identifying comparable transactions and considers it fair and reasonable to select these Comparable Transactions and to use their respective P/E Multiples as reference for determining the Consideration.

The implied P/E Multiples of the Comparable Transactions have an average value of 36.92 times and a median value of 33.48 times, and the implied P/E Multiple of approximately 31.4 times reflected by the Consideration is lower than the average and median values represented by Comparable Transactions. The Company therefore considers the Consideration for the Company as purchaser in the Proposed Acquisition to be fair and reasonable in this regard. Details of the Comparable Transactions are set out as below:

Target company	**Purchaser**	**Percentage acquired/ disposed**	**Implied Equity Value** *(RMB'million)*	**Implied P/E Multiples** *(times)*
Jiande Hexu Enterprise Management Co. Ltd.	the Company (stock code on the Stock Exchange: 3869)	70%	690	24.21x
Etern Group Ltd. (investment company that holds 98% equity interest in Suzhou Yongding Hospital Company Limited)	China Automation Group Limited (stock code on the Stock Exchange: 0569)	60%	1,126	21.74x

Target company	Purchaser	Percentage acquired/ disposed	Implied Equity Value	Implied P/E Multiples
			(RMB'million)	*(times)*
Jiangyin Baiyi Hospital Co. Ltd.	Yihua Healthcare Co. Ltd. (stock code on Shenzhen stock exchange: 000150)	51%	220	29.11x
Sichuan Friendship Hospital Co. Ltd.	Masep Medical Science & Technology Development (Shenzhen) Co. Ltd.	75%	1,300	32.85x
Kaiyuan Central Hospital Co. Ltd.	Kangmei Pharmaceutical Co. Ltd. (stock code on Shanghai stock exchange: 600518)	90%	81.9	36.42x
Lu'an Development Zone Hospital	Zhongzhu Healthcare Holding Co. Ltd (stock code on Shanghai stock exchange: 600568)	65%	49.5	57.97x
Anqing Shihua Hospital	Jinling Pharmaceutical Co. Ltd. (stock code on Shenzhen stock exchange: 000919)	88%	155.8	54.25x
Yugan County Chudong Hospital Co. Ltd.	Yihua Healthcare Co. Ltd. (stock code on Shenzhen stock exchange: 000150)	60%	474.9	34.11x
Hetian Xinsheng Hospital Co. Ltd.	Yihua Healthcare Co. Ltd. (stock code on Shenzhen stock exchange: 000150)	51%	156	21.20x
Xuancheng Eye Hospital Co. Ltd	Guangdong Zhongsheng Pharmaceutical Co. Ltd (stock code on Shenzhen stock exchange: 002317)	80%	110	57.36x
			Average	36.92x
			Median	33.48x

Source: public filings and the respective groups' announcements.

(iv) Historical financial performance of the Target Group and Jinhua Hospital

The Target Company indirectly owns 75% share capital of Guangsha Medical, and Guangsha Medical provides consultancy and management services to Jinhua Hospital in return for hospital management service fees calculated as a fixed percentage of Jinhua Hospital's revenue subject to adjustments based on performance indicators. As a result, the Board has taken into account the historical performance of the Target Group and Jinhua Hospital to arrive at the Consideration. The Target Group started to generate revenue subsequent to the provision of hospital management services to Jinhua Hospital by Guangsha Medical in 2017. In the year ended December 31, 2017, the Target Group recorded a consolidated revenue of RMB37.7 million and a consolidated gross profit of RMB36.3 million. For the three years ended December 31, 2015, 2016 and 2017, Jinhua Hospital recorded a stable growth in revenue increasing from RMB470.4 million to RMB514.4 million, as well as a stable increase both in the numbers of in-patient and out-patient visits. Based on the financial performance of the Target Group and Jinhua Hospital, the Board is of the view that the revenue growth trend of the Target Group and Jinhua Hospital have demonstrated promising future prospects of the Target Group.

Full text of the management discussion and analysis of the Target Group is set out in Appendix IV to this circular. Please also refer to paragraph headed "F. Information of the Target Group and the Hospitals—Key Financial information of Jinhua Hospital" in this circular for further discussions on the financial performance of the Target Group and Jinhua Hospital.

(v) Future prospects of the Target Group and the Hospitals

The Target Group is principally engaged in the provision of management and consultancy services to hospitals for a service fee. It is providing management and consultancy services to Jinhua Hospital and is currently expected to expand its client base to include Dongyang Hospital and Yongkang Hospital by entering into a hospital management agreement with each of them by the end of 2018. Based on the in-depth industry expertise of the management of the Company, the Company is well-aware of the management model of Jinhua Hospital and the potential benefits from providing management services to the Hospitals in the future.

Jinhua Hospital is a general Class IIIB Hospital and registered as a Privately-funded Non-enterprise Entity located in Jinhua city, which offers comprehensive medical services with specialty in oncology and cancer treatments and is in the course of expanding its operation. Dongyang Hospital is constructed and developed as a Class II Hospital registered as a Privately-funded Non-enterprise Entity and was put into operation in June 2013, providing comprehensive medical services on common diseases, frequently re-occurring diseases and chronic diseases. Yongkang Hospital is a Class IIB Hospital registered as a public institution providing general medical services on common, frequently-occurring and chronic diseases and serving as a regional medical platform for focused medical treatment. The Hospitals are all located in Jinhua City in central Zhejiang Province with close proximity with each other and the other hospitals owned or managed by the Group, which, the Company expects, will create synergistic effect within the Group.

The Company expects that China will see a continous trend of aging population and a trend of increase in chronic, common and/or frequently-occurring diseases, indicating an increase in the demand for healthcare services in China. Located in central Zhejiang Province, one of the most economically developed and populated region in China, it is expected that the Hospitals have considerable growth potential. Please also refer to paragraph headed "I. Reasons for and benefits of the Proposed Acquisition and the Future Prospect of the Target Group" in this circular for further discussion on the operation conditions and potential growth of the Hospitals and the synergistic effect within the Group.

Directors' view on the Consideration

Having considered the aforesaid factors, the Directors (including the independent non-executive Directors but excluding the Abstained 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 following Conditions:

a) the passing of all necessary resolutions by the advisory committee, board of directors and/or shareholders (or, where applicable, the independent shareholders) (as the case may be) of the Company and the Vendor;

b) (i) all requisite filings or registrations having been made with, and (ii) all requisite governmental authorisations on terms and conditions satisfactory to the Company having been obtained from, all applicable governmental entities, or other third parties which are necessary in connection with the execution and performance of the Share Purchase Agreement and any transaction contemplated therein (if any);

c) the Stock Exchange granting or agreeing to grant approval for the listing of and permission to deal in the Conversion Shares (either unconditionally or if subject to conditions, if required by the Stock Exchange to be fulfilled before Completion, such conditions being fulfilled and satisfied before Completion) and such listing and permission remaining in full force and effect and not subsequently revoked;

d) all third party consents to the transfer of the entire issued share capital of the Target Company pursuant to the Share Purchase Agreement that are required under any contract to which any of the Target Group Companies and the Hospitals is a party having been obtained, it being understood that a consent will be deemed required under a contract if the lack of it may result in a breach of, or constitute (with or without notice or lapse of time or both) a default and/or give rise to a third party right of termination, cancellation, modification, payment or acceleration under, such contract;

e) the Vendor having performed and complied with all covenants and obligations required to be performed or complied with by it under the Share Purchase Agreement on or before Completion and the Vendor having delivered to the Company a certificate to that effect in the agreed form at Completion;

f) each of the warranties given by the Company and the Vendor pursuant to the Share Purchase Agreement being complete, true and accurate and not misleading as at the date of the Share Purchase Agreement and at Completion as though restated on and at Completion with respect to facts, events and circumstances existing as at such date and the Vendor having delivered to the Company a certificate to that effect in the agreed form at Completion;

g) each of the transaction documents required under the Share Purchase Agreement having been duly executed and delivered by each of the parties thereto (other than the Company);

h) the Undertaking Letter having been duly executed and delivered by the parties thereto; and

i) there having been no actual or threatened termination of the Hospital Management Letter of Intent and the Hospital Management Agreement 2017.

Except for the above Conditions (a), (b) and (c) which cannot be waived, the Company shall have the discretion to waive the Conditions. The reason for empowering the Company to waive the above Conditions is to allow more flexibility to the Company to manage the Proposed Acquisition if circumstances required. As of the Latest Practicable Date, none of the Conditions has been fulfilled and the Company has no intention to waive any of the Conditions. The Company will not waive any of the Conditions if the waiver of such Condition 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, if any, will affect the substance of the Proposed Acquisition.

Long Stop Date : In the event that any of the Conditions is not fulfilled or waived on or before the Long Stop Date, then the party not in default shall have the right, but not the obligation, by written notice to the other party, to:

a) defer Completion to after the Long Stop Date;

b) proceed to Completion so far as practicable (without prejudice to its rights under the Share Purchase Agreement); or

c) rescind the Share Purchase Agreement.

The Specific Mandate will be valid from the date of passing of the relevant resolutions at the EGM to January 8, 2019, being the fifth (5th) Business Day after December 31, 2018, and will cease to be effective if any Conditions has not been satisfied or, if applicable, waived by the Company or the Vendor (as the case may be) on or prior to December 31, 2018 or on such other date as the parties may agree in writing. In such case, the Company will comply with the applicable Listing Rules, and seek approval from its Shareholders or Independent Shareholders where required.

Completion : Completion shall take place on the fifth (5th) Business Day immediately after the fulfilment or waiver of all the Conditions (other than those conditions that by their terms are intended to or may be fulfilled at Completion).

Upon Completion, the Target Company will become a direct wholly-owned subsidiary of the Company and accordingly, the financial results of the Target Group will be consolidated into the accounts of the Group.

The Company expects Completion to take place on or before December 31, 2018 (namely the Long Stop Date).

Indemnity : The Vendor undertakes to indemnify the Company from and against all material losses suffered or incurred by the Company, any Target Group Company and the Hospitals as a consequence of or which would not have arisen but for:

a) any material breach or inaccuracy of any representation or warranty made by the Vendor in the transaction documents in relation to the Proposed Acquisition; or

b) any material failure by the Vendor to perform any of its obligations under the Share Purchase Agreement and the transaction documents required thereunder in relation to the Proposed Acquisition.

C. THE CONVERTIBLE BONDS

The principal terms of the Convertible Bonds are as follows:

Issuer : The Company

Principal Amount : HK$773,879,717

Issue Price : 100% of the principal amount

Form and denomination : Convertible Bonds are issued in registered form in the denomination of HK$1 each.

Issue Date : the date of Completion

Maturity Date : the date falling on the fifth (5th) anniversary of the date of issue of the Convertible Bonds, and if that is not a Business Day, the Business Day immediately following such date.

The Company has no right to extend the maturity date of the Convertible Bonds.

Interest : The Convertible Bonds do not bear any interest.

Conversion Shares : Assuming the conversion rights attached to the Convertible Bonds are exercised in full at the initial Conversion Price of HK$20.00 per Conversion Share, a number of 38,693,985 Conversion Shares will be issued upon conversion of the Convertible Bonds (subject to adjustments), which represent (i) approximately 28.00% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 21.87% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds.

The allotment and issue of the Conversion Shares are subject to the granting of the Specific Mandate by the Independent Shareholders at the EGM. There are no restrictions on any subsequent sale of the Conversion Shares. The allotment and issue of the Conversion Shares will not result in a change of control of the Company. The Conversion Shares upon issue will in all respects rank *pari passu* with the Shares then in issue.

Conversion Rights	:	Subject to the restrictions set out below, the Bondholders shall have the right to convert the Convertible Bonds into Shares at any time on or after the date following six months from the date of issue of the Convertible Bonds up to the close of business on the Maturity Date.
Restriction on Conversion	:	The Company is not obliged to issue Shares in satisfaction of the Conversion Rights in breach of its obligations under the Listing Rules (including but not limited to the minimum public float requirement) or the Takeovers Code.
Redemption upon Maturity and Early Redemption	:	The Company will redeem the outstanding Convertible Bonds at its principal amount on the Maturity Date. The Company may not redeem the Convertible Bonds at its option prior to the Maturity Date except in the event that the Shares cease to be listed or admitted to trading on the stock exchange on which the Shares are then listed or quoted or dealt in.
Default interest	:	If the Company fails to pay any sum in respect of the Convertible Bonds when the same becomes due and payable under the conditions of the Convertible Bonds, interest shall accrue on the overdue sum at the rate of 5% per annum from the due date and ending on the date on which full payment of principal and the relevant interest accured is made to the Bondholders.
Transferability	:	The Convertible Bonds may be assigned or transferred with prior written consent of the Company, save where such transfer is made to an Affiliate of the Bondholder(s). Any transfer of the Convertible Bonds shall be made in compliance with all applicable requirements under the Listing Rules and all applicable laws and regulations. Affiliate means, in respect of the Bondholder(s), any other person directly or indirectly controlling or controlled by or under direct or indirect common control with the Bondholder(s).
Status	:	The Convertible Bonds constitute direct, unsubordinated, unconditional and unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves.
Voting and other rights	:	The Bondholders will not be entitled to receive notice of or attend or vote at general meetings of the Company by reason only of being the Bondholders. The Bondholders will not be entitled to participate in any distribution and/or offers of further securities made by the Company by reason only of being the Bondholders.
Listing	:	No application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchanges. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Conversion Price

The initial Conversion Price is HK$20.00 per Conversion Share (subject to adjustments as set out below in the paragraph headed "Adjustments to Conversion Price"), which represents:

(a) a discount of approximately 0.50% over the closing price of HK$20.10 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of approximately 2.25% over the average closing price of approximately HK$19.56 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to and including the Last Trading Day;

(c) a premium of approximately 4.33% over the average closing price of approximately HK$19.17 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days immediately prior to and including the Last Trading Day;

(d) a premium of approximately 2.93% over the average closing price of approximately HK$19.43 per Share as quoted on the Stock Exchange for the last thirty (30) consecutive trading days immediately prior to and including the Last Trading Day;

(e) a premium of approximately 8.70% to the closing price of HK$18.40 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(f) a premium of approximately 48.59% over the audited consolidated net assets per Share of approximately HK$13.46 as at December 31, 2017 (calculated by dividing the Group's audited consolidated net assets attributable to the Shareholders of approximately RMB1,514.11 million (approximately HK$1,859.90 million) as at December 31, 2017 by 138,194,000 Shares in issue as at the Latest Practicable Date).

The Conversion Price was determined after arm's length negotiations between the Company and the Vendor with reference to the recent trading price and trading volume of the Shares on the Stock Exchange, and the assets, liabilities, financial performance and business condition of the Company. The Company also considered (i) the future prospects of the Company, including the growth potential by entering into the Proposed Acquisition; (ii) the lock-up restriction for a six months' period and the conversion restriction that the Convertible Bonds are subject to, as disclosed in "Conversion Rights" and "Restriction on Conversion" above; (iii) the fact that the Convertible Bonds bear no interest and therefore does not impose financing costs on the Company; (iv) the value of Conversion Price, which the Company considers to be comparable with the market practice; and (v) the factors disclosed in the section headed "I. Reasons for and Benefits of the Proposed Acquisition and the Future Prospect of the Target Group" below. Based on all the factors as aforementioned, the Board (including the independent non-executive Directors but excluding the Abstained Directors) considers that the terms of the Convertible Bonds (including the Conversion Price) are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

In determining the Conversion Price, the Company looked into several recent cases on the market which involved the issue of convertible bonds by companies listed on the Stock Exchange as all or part of consideration in the relevant transactions. Under such transactions, the listed companies issued convertible bonds with zero interest rate and conversion prices of such convertible bonds are determined with reference to the relevant indicative closing prices of the shares of the listed companies. The Company therefore considers the Conversion Price to be comparable with the market practice.

Adjustments to Conversion Price

The Conversion Price shall from time to time be adjusted upon the occurrence of the following events in relation to the Company:

(a) an alteration of the nominal amount of the Shares by reason of consolidation, sub-division or re-classification of Shares;

(b) an issue of Shares credited as fully paid (other than in lieu of cash dividend) by way of capitalisation of profits or reserves of the Company;

(c) a capital distribution made to the Shareholders;

(d) any payment of dividend or distribution, whether of cash, assets or other property to the Shareholders (other than in lieu of cash dividend);

(e) an issue of Shares, or issue or grant of any options, warrants or other rights, by way of rights, to all or substantially all Shareholders to subscribe for or purchase any Shares;

(f) an issue of securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) or issue or grant of any options, warrants or other rights, by way of rights, to subscribe for or purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares);

(g) any modification of rights of conversion, exchange, subscription, purchase or acquisition attaching to any such securities arising from a conversion or exchange of other exiting securities so that the consideration per Share is less than 95% of the relevant Current Market Price;

(h) other offers of securities by the Company or a subsidiary of the Company to the Shareholders who are entitled to participate in arrangements whereby the securities may be acquired by them; and

(i) other events which in the Company's view would have an effect on the position of the Bondholders as a class compared with the position of the holders of all other securities of the Company, which is analogous to any of the price adjustment events mentioned under paragraphs (a) to (h) above.

D. THE JV AGREEMENT

Holdco and Kangshou entered into the JV Agreement on April 28, 2016 in respect of their shareholdings in Guangsha Medical and their rights and obligations, key terms of which are set out as below:

Board composition	:	The board of directors of Guangsha Medical shall consist of five (5) directors, among which Holdco is entitled to appoint four (4) directors and Kangshou is entitled to appoint one (1) director.
Reserved matters	:	The following reserved matters require the consent of all attending directors at the relevant board meeting: (1) increase or decrease of the registered capital of Guangsha Medical; (2) amendments to the articles of association of Guangsha Medical; (3) the discontinuation, termination or dissolution of Guangsha Medical; and (4) merger or de-merger of Guangsha Medical.
Term and Termination	:	Guangsha Medical has a term of 20 years and may be extended upon mutual agreements of both parties, unless terminated under the following circumstances: (1) mutual agreement of the parties that the business purpose of the joint venture has failed and Guangsha Medical has no prospects; (2) failure to perform the obligations under the JV Agreement and the articles of association of Guangsha Medical by one party, as a result of which Guangsha Medical is unable to carry out normal business; or (3) other circumstances as set out in the Sino-foreign Equity Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法》) and its implementation regulations.

E. THE UNDERTAKING LETTER

As one of the Conditions, the Company proposes to execute the Undertaking Letter in favour of the Guangsha Minority Shareholders, pursuant to which the Company undertakes to acquire the remaining 25% equity interests in Guangsha Medical held by Kangshou (the "**Remaining Interest**") (the "**Subsequent Acquisition**"), no later than the date falling on the third anniversary of the Completion Date at the purchase price of not less than RMB210 million (calculated as RMB630 million ÷ 75% × 25%) plus other reasonable expenses incurred by the Guangsha Minority Shareholders in connection with their investment in Guangsha Medical and with reference to the valuation (the "**Remaining Interest Appraised Value**") of the Remaining Interest to be conducted by an independent professional valuer appointed by the parties thereunder as of the date of the acquisition of the Remaining Interest (the "**Remaining Interest Purchase Price**").

Pursuant to the Undertaking Letter, the Subsequent Acquisition will not be entered into nor completed by the parties until the fulfillment of the following conditions: (a) the acquisition of the

Remaining Interest having complied with all applicable requirements under the Listing Rules or any other applicable laws, rules and regulations; (b) if required by the Listing Rules, the Company having obtained the approval by independent shareholders at general meeting of the Company in respect of the acquisition of the Remaining Interest; and (c) the independent board committee and, if required by the Listing Rules, the independent financial adviser as appointed for the purpose of the acquisition of the Remaining Interest having forming the view that the terms of the acquisition of the Remaining Interest are fair and reasonable, on commercial terms or better and in the interests of the Company and its Shareholders as a whole.

The minimum Remaining Interest Purchase Price of RMB210 million was determined after arm's length negotiation between the parties to the Undertaking Letter and represents a price that is lower than the mid-point of the Appraised Value proportionate to the Remaining Interest. In the unlikely event where the appraised value of the Remaining Interest is below RMB210 million, the Remaining Interest Purchase Price cannot be adjusted downwards to be less than RMB210 million.

Despite that, having considered the following factors:

(1) the expectation that Jinhua Hospital is to maintain a stable growth rate in generation of revenue, mainly due to the expansion of capacity and the improvement in operational efficiency;

(2) the potential growth in return of Guangsha Medical created by applying the Company's hospital management business model to Dongyang Hospital and Yongkang Hospital; and

(3) the other reasons set out under the paragraph "I. Reasons for and Benefits of the Proposed Acquisition and the Future Prospect of the Target Group" below,

the Board is positive about the future prospects of the Target Group and is not aware of any foreseeable factors which may result in decrease in the valuation of the Remaining Interest, and therefore considers the minimum Remaining Interest Purchase Price to be fair and reasonable and in the Shareholders' interest as a whole.

The Company confirms that it will enter into definitive agreement(s) with specific terms of the Subsequent Acquisition (including the actual Remaining Interest Purchase Price) with Kangshou when it purchases the Remaining Interest, and will comply with the relevant requirements under the Listing Rules, including but not limited to appointment of independent financial adviser and obtaining of shareholders' approval (if applicable).

Considering (i) that issuing Convertible Bonds to Kangshou is subject to certain restrictive requirements in respect of outbound direct investments pursuant to the local PRC guidelines and policies; (ii) the restraint in relation to the current legal and policy requirements under the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法), the Catalogue of Industries for Guiding Foreign Investment (2017 Revision) (外商投資產業指導目錄) and local policy that foreign investment in medical institutions is restricted to the form of sino-foreign equity joint venture or cooperative joint venture and the percentage of foreign investment shall not exceed 70%, as well as

(iii) the related costs and other expenses, the Company does not intend to acquire the Remaining Interest alongside the Proposed Acquisition. As advised by the PRC legal advisors of the Company, the Undertaking Letter is in compliance with the applicable PRC laws and regulations. The Company confirms that the Subsequent Acquisition will be effected by way of equity transfer or through alternative transaction structure permitted under the PRC laws and regulations.

F. INFORMATION OF THE TARGET GROUP AND THE HOSPITALS

The Target Group

The Target Company is an investment holding company established in the British Virgin Islands with limited liability. As at the Latest Practicable Date, the Target Company directly owns the entire share capital in the Holdco, which in turn owns 75% share capital in Guangsha Medical. The Holdco acquired the 75% equity interest in Guangsha Medical in April 2016 from an independent third party at a total consideration of RMB600 million while Kangshou at the same time acquired the remaining 25% from the same vendor with a proportionate consideration of RMB200 million. As of the Latest Practicable Date, Kangshou held the remaining 25% equity interest of Guangsha Medical. Guangsha Medical is one of the founders of each of the Hospitals and holds 80%, 80% and 65% of the start-up capital in Jinhua Hospital, Dongyang Hospital and Yongkang Hospital, respectively. As at the Latest Practicable Date, Guangsha Medical manages Jinhua Hospital pursuant to the Hospital Management Letter of Intent and the Hospital Management Agreement 2017. The accounts of the Hospitals are not consolidated into the consolidated financial statements of the Target Company.

Set out below is the audited consolidated financial information of the Target Group for the years ended December 31, 2016 and 2017.

	For the financial year ended December 31,	
	2016	**2017**
	RMB'000	*RMB'000*
Revenue	—	37,694
Net (loss)/profit before taxation	(1,800)	33,579
Net (loss)/profit after taxation	(501)	25,148
Add back: One-off expenses*	—	1,635
Adjusted net (loss)/profit after taxation	(501)	26,783
Adjusted net (loss)/profit attributable to shareholders	(537)	20,050

** The one-off expenses represent the payment of professional service fees to the auditors in relation to the Proposed Acquisition.*

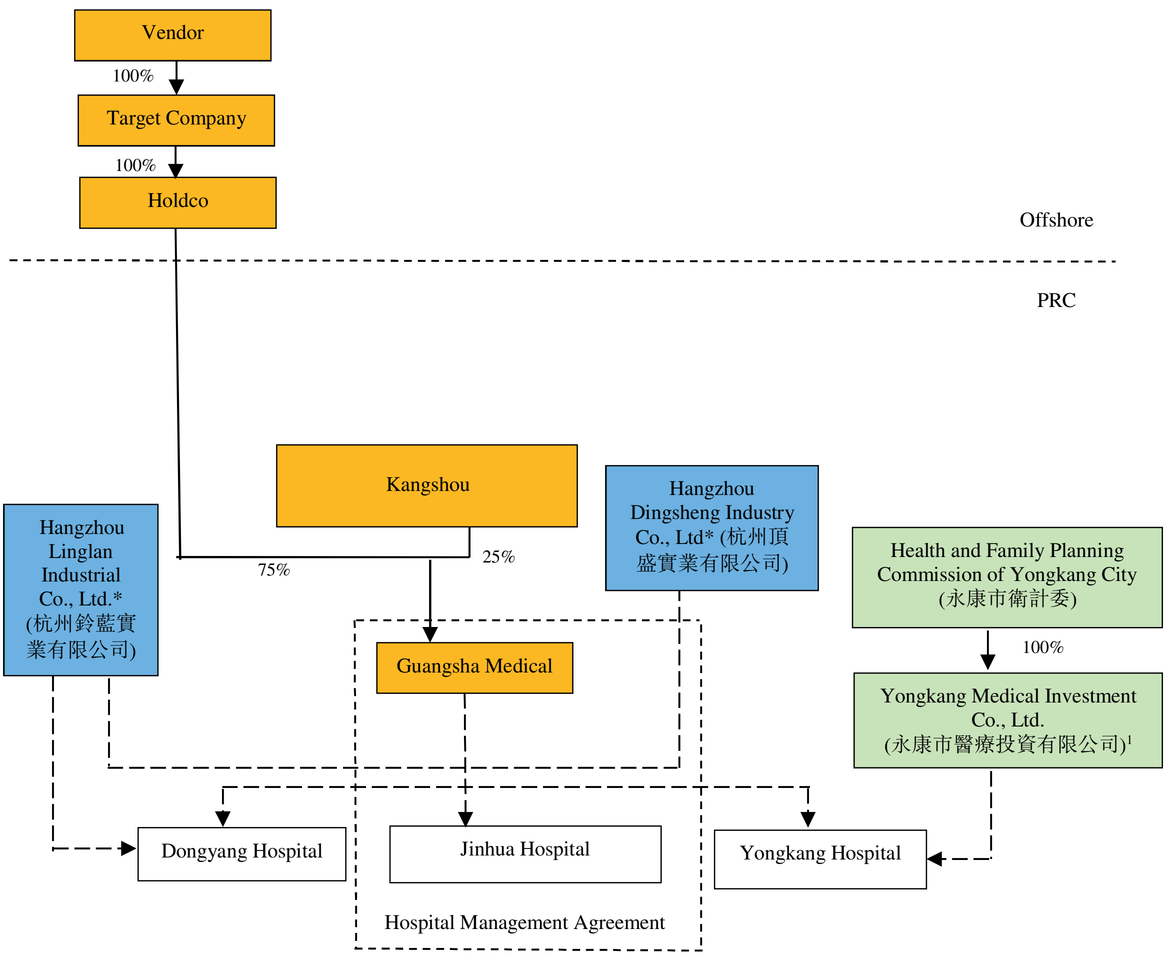
Guangsha Medical entered into the Hospital Management Agreement 2017 with Jinhua Hospital with a term of three years commencing from January 1, 2017 to January 1, 2020, and the Target Group started to charge service fees from Jinhua Hospital from the financial year ended December 31, 2017.

The audited consolidated total and net asset value of the Target Group as at December 31, 2017 were approximately RMB703.4 million and RMB623.1 million, respectively.

Please also refer to "Appendix II — Accountant's Report of the Target Group" and "Appendix IV — Management Discussion and Analysis on the Target Group" in this circular for further information on the financial performance of the Target Group.

The shareholding structure of the Target Group before the Proposed Acquisition and after Completion is set out below:

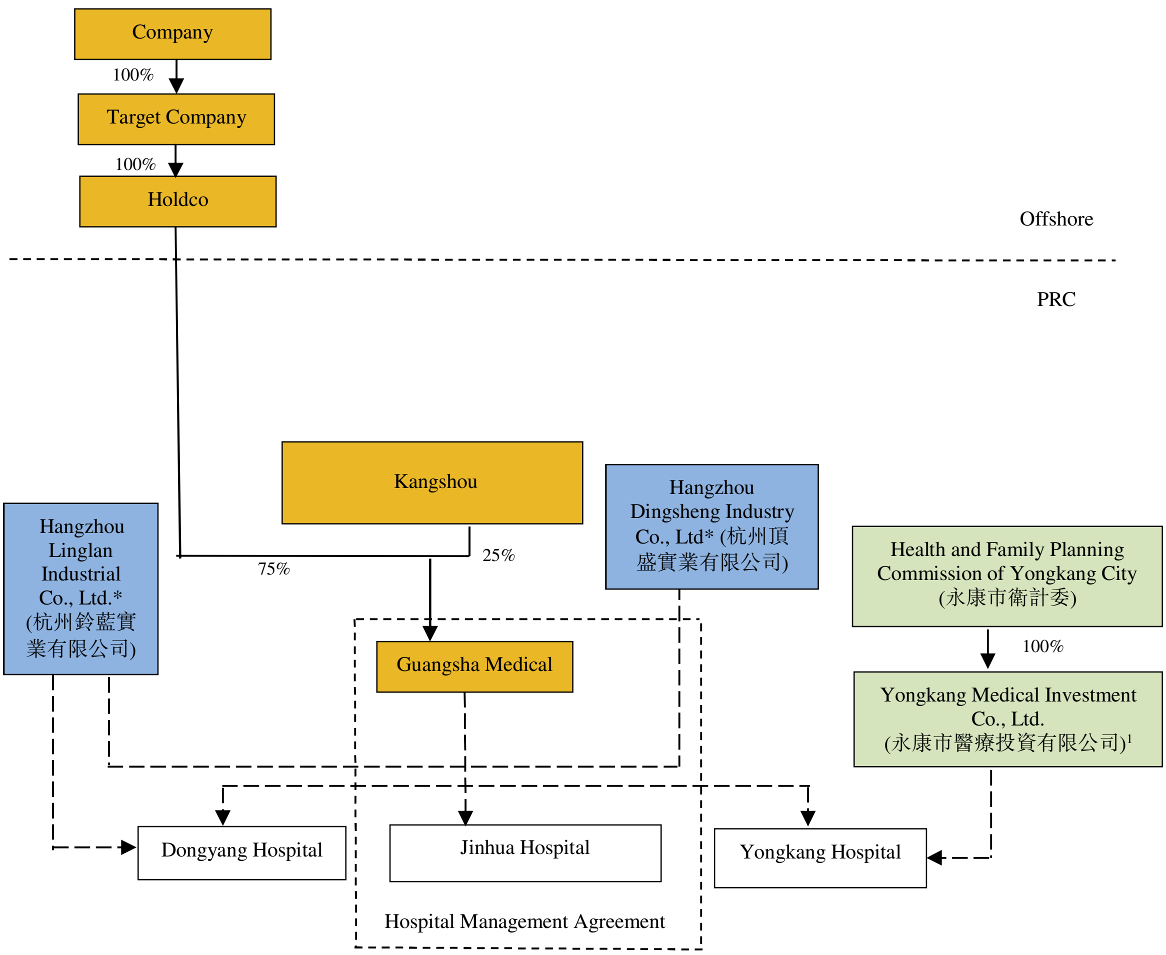
Shareholding Structure of the Target Group before the Proposed Acquisition



Note:

1. The entity is in the process of setting up as at the Latest Practicable Date.

Shareholding Structure of the Target Group after Completion



Note:

1. The entity is in the process of setting up as at the Latest Practicable Date.

Jinhua Hospital, located in Jinhua city of Zhejiang province, is constructed and developed as a general Class IIIB Hospital and registered as a Privately-funded Non-enterprise Entity providing comprehensive medical services with specialty in oncology and cancer treatments. Dongyang Hospital, located in Dongyang, Jinhua city of Zhejiang province, is constructed and developed as a Class II Hospital and registered as a Privately-funded Non-enterprise Entity providing comprehensive medical services on common, frequently-occurring and chronic diseases and serving as a medical service center for local residents. Yongkang Hospital, located in Yongkang city of Zhejiang province, is constructed and developed as a Class IIB Hospital and registered as a public institution providing general medical services on common, frequently-occurring and chronic diseases and serving as a regional medical platform for focused medical treatment.

The hospital management arrangements and management of the Hospitals

The relationship between the Target Group and Jinhua Hospital has been governed by the Hospital Management Letter of Intent and the Hospital Management Agreement 2017. Through the professional management services provided by Guangsha Medical, the Target Company aims to (i) provide more sophisticated training to the medical professionals of Jinhua Hospital; (ii) build a more efficient procurement system with the available resources and expertise in the Enlarged Group, which would lower the acquisition costs of drugs, medical equipment and supplies; (iii) enhance medical service quality and operating efficiency of Jinhua Hospital with the use of the integrated and streamlined management system of the Group; and (iv) improve the social and brand images of Jinhua Hospital, as well as its potential economic benefits and medical service quality.

In 2017, Guangsha Medical and Jinhua Hospital, amongst others, entered into the Hospital Management Letter of Intent, covering the period from January 1, 2017 to December 31, 2066. Pursuant to which, Guangsha Medical agreed to provide consultancy and management services to Jinhua Hospital, and Jinhua Hospital agreed to pay Guangsha Medical hospital management service fees, which shall be calculated based on a percentage of Jinhua Hospital's revenue for the relevant year and a number of target performance indicators. As at the Latest Practicable Date, pursuant to the Hospital Management Letter of Intent, Guangsha Medical entered into the Hospital Management Agreement 2017 to govern the specific terms for the management and consultancy services that Guangsha Medical provides to Jinhua Hospital from January 1, 2017 to January 1, 2020. Pursuant to the Hospital Management Agreement 2017, Guangsha Medical shall provide services to Jinhua Hospital in respect of, among other things, medical examination and laboratory tests, establishment of a modern management system, daily operational management and pharmaceutical and medical consumable procurement consultancy services; and from January 1, 2018, the service fees shall be calculated based on (1) a fixed percentage of 4.8% of the revenue of Jinhua Hospital and (2) a performance-based floating component, which shall be determined based on a number of predetermined performance indicators, including the number of out-patient and in-patient visits, the satisfaction rate of various suppliers to Jinhua Hospital, and the satisfaction rate of medical professionals regarding Jinhua Hospital and the services provided by Guangsha Medical.

The service fees are determined after the arm's length negotiation between Guangsha Medical and Jinhua Hospital based on various factors including (1) the scope and substance of services provided to Jinhua Hospital; (2) the common market practice in China's healthcare services industry to charge hospital management service fee, including fixed-rate component and performance-based floating component; and (3) the range of the market rates from around 5% to 30% of the total revenue of the hospital in respect of the service fees charged for provision of hospital management and consultancy services, according to an industry report issued to the Company when the Company was listed on the Stock Exchange in March 2017. Accordingly, the Board considers the effective rate of the service fee charged from Jinhua Hospital, which is comprised of a fixed percentage and a performance-based floating component, falls within the range of market rates, and therefore the service fees charged is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Set forth below is a summary of the key terms of the Hospital Management Letter of Intent and the Hospital Management Agreement 2017:

- *Duration*: 50 years (from January 1, 2017 to December 31, 2066)
- *Scope of management services*: Guangsha Medical provides consultancy and management services to Jinhua Hospital.
- *Management service fees*: Guangsha Medical receives management service fee that comprised of (i) a prescribed proportion of the annual revenue of Jinhua Hospital and (ii) a performance fee based on the assessment result of the predetermined performance indicators. The performance indicators are reviewed and selected annually by the Guangsha Medical and Jinhua Hospital, which may include the number of out-patient and in-patient visits, the satisfaction rate of various suppliers to Jinhua Hospital, and the satisfaction rate of medical professionals regarding Jinhua Hospital and the services provided by Guangsha Medical.
- *Exclusivity*: Without prior written approval of Guangsha Medical, Jinhua Hospital may not engage any third party in the provision of hospital management services, or establish any similar arrangement with any third party.

As at the Latest Practicable Date, Guangsha Medical has entered into a hospital management letter of intent with each of Dongyang Hospital and Yongkang Hospital in 2016, and currently expects to enter into a hospital management agreement with each of them by the end of 2018. As advised by the PRC legal advisors of the Company, the hospital management letters of intent create a binding contractual obligation on both Guangsha Medical and each of Dongyang Hospital and Yongkang Hospital to enter into hospital management agreements in relation to the provision of consultancy and management services.

Set forth below is a summary of the key terms of the hospital management letter of intent entered into between Guangsha Medical and Dongyang Hospital:

- *Duration*: 20 years (from September 29, 2016 to September 28, 2036)
- *Scope of management services*: Guangsha Medical provides consultancy and management services to Dongyang Hospital.
- *Management service fees*: Guangsha Medical receives management service fee at a prescribed proportion of the annual revenue of Dongyang Hospital. The key factors for determining the service fee is subject to review every three years.
- *Exclusivity*: Unless mutually agreed upon by both Guangsha Medical and Dongyang Hospital, Dongyang Hospital may not engage any third party in the provision of similar hospital management services and/or support, or establish any similar arrangement with any third party.

Set forth below is a summary of the key terms of the hospital management letter of intent entered into between Guangsha Medical and Yongkang Hospital:

- *Duration*: 20 years (from April 20, 2017 to April 19, 2037)

- *Scope of management services*: Guangsha Medical provides consultancy and management services to Yongkang Hospital.

- *Management service fees*: Guangsha Medical receives management service fee at a prescribed proportion of the annual revenue of Yongkang Hospital. The key factors for determining the service fee is subject to review every three years.

- *Exclusivity*: Unless mutually agreed upon by both Guangsha Medical and Yongkang Hospital, Yongkang Hospital may not engage any third party in the provision of similar hospital management services and/or support, or establish any similar arrangement with any third party.

The Company believes that Guangsha Medical is one of the founders of each of the Hospitals and has the ability to procure the entering into of service agreements with the Hospitals and exercise its influence over the operational and managerial decisions of the Hospitals through its management rights under the articles of association of each of the Hospitals and/or the relevant agreement between the founders of the Hospitals to nominate a majority of the members in their respective executive committee. Among these executive committee members nominated by Guangsha Medical at each Hospital, one of them shall become the chairman of the executive committee. The hospital executive committee is the decision-making authority in all material affairs in respect of the hospital under the applicable PRC laws. Accordingly, the Board believes that it is able to ensure that the service fees to be agreed between Guangsha Medical and the Hospitals will be fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

Key financial information of Jinhua Hospital

The following table sets forth the key financial information of Jinhua Hospital for the years ended December 31, 2015, 2016 and 2017 based on its management accounts prepared in accordance with International Financial Reporting Standards:

	As of or for the year ended December 31,		
	2015	**2016**	**2017**
Revenue (RMB'000)[1]	470,435	505,218	514,396
Cost of revenue (RMB'000)	(391,231)	(422,436)	(446,930)
Gross profit (RMB'000)	79,204	82,782	67,466
Gross profit margin	16.8%	16.4%	13.1%
In-patients			
Occupancy rate of beds in operation[2]	101%	100%	98%
Number of in-patient visits	31,675	32,697	33,858

	As of or for the year ended December 31,		
	2015	2016	2017
Total revenue from in-patient services (RMB'000)[1]	379,572	412,482	411,950
Average revenue per in-patient visit (RMB)	11,983	12,615	12,167
Out-patients			
Number of out-patient clinic visits	162,517	167,814	180,776
Total revenue from out-patient clinic services (RMB'000)[1]	75,008	77,532	84,283
Average revenue per out-patient clinic visit (RMB)	462	462	466
Number of medical check-up visits	31,754	28,874	30,710
Total revenue from medical check-up services (RMB'000)[1]	15,856	15,205	18,164
Average revenue per medical check-up visit (RMB)	499	527	591
Net income (RMB'000)[3]	17,611	30,803	12,192
Net income margin[4]	3.7%	6.1%	2.4%
Current ratio[5]	0.35	0.36	0.81
Quick ratio[6]	0.31	0.32	0.76
Debt ratio[7]	1.18	1.13	1.11

Notes:

1. Revenue derived from the provision of in-patient services and out-patient services. Revenue from out-patient services is generated from out-patient clinic services and medical check-ups.
2. Occupancy rate exceeded 100% because hospital beds are used by more than one patient each day to satisfy demand, which the Company believes was in line with the hospital's social responsibilities.
3. Refers to after-tax net income, not including other comprehensive income.
4. Equals net income for the period divided by revenue for the period and multiplied by 100%.
5. Equals current assets divided by current liabilities as at the respective financial period-end date.
6. Equals current assets less inventories and divided by current liabilities as at the respective financial period-end date.
7. Equals total liabilities divided by total assets as at the respective financial period-end date.

Revenue

Jinhua Hospital's revenue increased in the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to (i) an increase in in-patient visits and (ii) an increase in average revenue per in-patient visit. The increase in in-patient visits was primarily due to the increase in number of beds. The increase in average revenue per in-patient visit was primarily because the improvement in medical techniques and medical services enables Jinhua Hospital to provide more high value-added services to its patients and accordingly charge a higher medical services fee.

Jinhua Hospital's revenue further increased from approximately RMB505.2 million in 2016 to approximately RMB514.4 million in 2017 primarily due to the increases in number of in-patient visits and medical check-up visits. The increase in visits was due to the enhancement of service capabilities and standard to broaden the base of patients.

Gross profit and gross profit margin

Jinhua Hospital's gross profit increased in the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily due to increases in the number of in-patient visits and the average revenue per in-patient visit as a result of improvements in in-patient business operating efficiency and service level. Jinhua Hospital's gross profit decreased from approximately RMB82.8 million in 2016 to approximately RMB67.5 million in 2017 primarily due to payment of hospital management fees in the amount of approximately RMB40.0 million to Guangsha Medical pursuant to the Hospital Management Agreement 2017.

In-patient services

The total revenue from in-patient services increased from approximately RMB379.6 million for the year ended December 31, 2015 to approximately RMB412.5 million for the year ended December 31, 2016, which was in line with the increases in the number of in-patient services visits and the average revenue per in-patient services visits. The total revenue from in-patient services slightly decreased from approximately RMB412.5 million in 2016 to approximately RMB412.0 million in 2017 due to the decrease in average revenue per in-patient visit.

Out-patient services

The total revenue from out-patient clinic services increased from approximately RMB75.0 million in the year ended December 31, 2015 to approximately RMB77.5 million in the year ended December 31, 2016 due to the increase in the number of out-patient clinic services visits. The total revenue from out-patient clinic services increased from approximately RMB77.5 million in 2016 to approximately RMB84.3 million in 2017 due to the increases in the number of out-patient clinic services visits and the average revenue per out-patient clinic visit.

The total revenue from medical check-up services slightly decreased from approximately RMB15.9 million in the year ended December 31, 2015 to approximately RMB15.2 million in the year ended December 31, 2016 which was in line with the decrease in the number of medical check-up visits. The total revenue from medical check-up services increased from approximately RMB15.2 million in 2016 to approximately RMB18.2 million in 2017 due to the increase in the number of medical check-up services visits and the average revenue per medical check-up services visit.

Employees and Divisions

As of December 31, 2015, 2016 and 2017, Jinhua Hospital employed a total of about 1,073, 1,107 and 1,114 employees respectively. As at the Latest Practicable Date, Jinhua Hospital has 28 medical departments, 21 wards and 20 medical laboratories.

G. INFORMATION ON THE GROUP AND THE VENDOR

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 principally engaged in hospital management business and general hospital business in China.

Information on the Vendor

The Vendor, the sole shareholder of the Target Company, is an exempted limited partnership formed in Cayman Islands and is managed by Hony Capital Fund VIII GP (Cayman) Limited. Hony Capital Fund VIII GP (Cayman) Limited is ultimately held as to 49% by Mr. Zhao John Huan, the Chairman and a non-executive Director of the Company, as to 25.50% each by Mr. Cao Yonggang and Mr. Xu Minsheng, respectively. The series of private equity investment funds (including the Vendor), together with their respective companies/general partners were founded to capture investment opportunities as a private equity platform.

H. CHANGES IN SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company had an authorized share capital of HK$500,000 divided into 500,000,000 Shares of a par value of HK$0.001 each, and an issued and fully-paid share capital of HK$138,194 consisting of 138,194,000 Shares. The following table depicts the effects of the issue of the Conversion Shares on the shareholding structure of the Company (i) as of the Latest Practicable Date and (ii) immediately after the issue of the Conversion Shares to the extent that immediately after such conversion, the Company will continue to be able to satisfy the Public Float requirement under the Listing Rules, and assuming no further Shares would be issued after the Latest Practicable Date and prior to such coversion after Completion:

Name of Shareholders	As of the Latest Practicable Date		Immediately after the issue of the Conversion Shares to the extent that immediately after such conversion, the Company will continue to be able to satisfy the Public Float requirement	
	No. of Shares	Approximate % of issued share capital of the Company	No. of Shares	Approximate % of issued share capital of the Company
Vanguard Glory	97,000,000	70.19	97,000,000	63.26
Vendor	—	—	15,142,000	9.88
Midpoint Honour[2]	2,860,000	2.07	2,860,000	1.87
Public Shareholders	38,334,000	27.74	38,334,000	25.00
Total	138,194,000	100.00	153,336,000	100.00

Notes:

1. The shareholding structure is shown for illustration purpose only and may not be exhaustive. Pursuant to conversion restrictions under the terms and conditions of the Convertible Bonds, conversion right may be exercised to the extent that, immediately after such conversion, the Company will continue to be able to satisfy the public float requirement under the Listing Rules.

2. Midpoint Honour is indirectly owned as to 83.33% by Mr. Zhang Xiaopeng, a former Director of the Company up to May 23, 2018.

I. REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION AND THE FUTURE PROSPECT OF THE TARGET GROUP

The Group is principally engaged in hospital management business and general hospital business in China. With a view to become a professional and large-scale hospital operation and management group, the Group has been constantly seeking sound investment opportunities to manage or own hospitals and to replicate its business model of promoting synergies between the Group's management and investment expertise and the professional and management team that has been operating the hospitals by centralizing strategic planning and development at the group level, providing sufficient support and necessary investment strategies to enhance the hospital's operations, and optimizing the management and medical resources through exchange and communication between hospitals managed or owned by the Group.

Strong operating condition of Jinhua Hospital

Jinhua Hospital is a general Class IIIB not-for-profit private hospital located in Jinhua city in central Zhejiang Province, which offers comprehensive medical services with specialty in oncology and cancer treatments and is in the course of expanding its operation. As at the Latest Practicable Date, Guangsha Medical is providing hospital management and consultancy services to Jinhua Hospital. Jinhua Hospital is currently equipped with 28 medical departments, 21 wards and 20 medical laboratories. It has a total of approximately 600 registered beds and the capacity can be expanded to over 1,000 beds. It also has an experienced medical experts team consisting of around 330 doctors, 430 nurses and 130 medical technicians. Jinhua Hospital also ranks top-tier among non-public hospitals in China in terms of its medical specialty in oncology and cancer treatments, service branding as well as the scale of operation. Jinhua Hospital has recorded a stable growth in revenue in recent years. The Company expects to facilitate the business development of Jinhua Hospital, through provision of hospital management and consultancy services by Guangsha Medical, with its centralized management platform as well as its expertise in hospital management and operation, and in turn generate higher return as well as broaden the revenue base for the Group.

Great potential and high return in the oncology and cancer treatment market of China

Due to various factors such as aging population, industrial pollution and urbanization, China sees a significantly rising cancer prevalence and cancer mortality rate. Cancer claims over 25% of deaths in China. Despite the constant upgrading of oncology and cancer treatment services in China throughout the years, the amount of cancer patients outgrew the number of hospital beds, resulting in a bed occupancy rate for oncology specialty hospitals of over 100%, the highest among all specialty hospitals. It is expected that in the future, the shortage of supply in oncology and cancer treatment services will remain for a considerable period of time. The hospitals are able to capture the value created by medical treatment as well as equipment, particularly for hospitals specialize in the oncology and cancer treatment services industry.

On the other hand, oncology and cancer treatment is highly complex in nature and usually combines multiple treatment methods, which puts forward particularly high requirements for the expertise of medical experts and treatment equipment. Specialization and delineation of medical departments in oncology and cancer treatment according to the different treatment methods will be the future trend of oncology and cancer treatment. As a result, despite the high revenue generated, oncology specialty hospitals pose higher industry barrier and are less in number comparing to other specialty hospitals.

Prime clientele, demographics and market of Jinhua Hospital

The Proposed Acquisition represents a valuable opportunity for the Group to overcome the industry barrier and readily expand its hospital network into the oncology and cancer treatment market. Jinhua city has approximately 10% of the total population in Zhejiang Province, with a per capita disposable income higher than the national average. The Company considers it an optimal timing to expand its hospital network to Jinhua city for the following reasons:

(a) Jinhua city has a larger percentage of population aged over 60 compared to the national average, which results in greater demand for medical treatment;

(b) Comparing to the small number of oncology specialty hospitals in Jinhua City, the reported cancer incidence rate in Jinhua city is significantly higher than the national average and it is expected that the demand for specialty oncology treatment will be constantly growing in the future; and

(c) The distribution of medical treatment resources is uneven between the city center of Jinhua city and its surrounding counties, leaving the surrounding counties with market potential for development of hospital networks.

Potential growth of Dongyang Hospital and Yongkang Hospital

Dongyang Hospital is constructed and developed as a Class II Hospital registered as a Privately-funded Non-enterprise Entity and was put into operation in June 2013. The hospital is equipped with 300 registered beds and around 220 staff and primarily focuses on the treatment of common diseases, frequently re-occurring diseases and chronic diseases, and is serving as a medical service center for local residents. Upon its establishment, Jinhua Hospital sent over key doctors in respiratory medicine, cardiology, oncology and orthopedics to Dongyang Hospital to assist in establishing key medical departments.

Yongkang Hospital is a Class IIB Hospital registered as a public institution providing general medical services on common, frequently-occurring and chronic diseases and serving as a regional medical platform for focused medical treatment. The hospital was first established in 1952, and therefore has accumulated clientele and established its reputation in the region. The hospital completed its public hospital restructuring in April 2015, during which period Guangsha Medical injected capital into Yongkang Hospital to assist the development of the hospital, including the upgrade of medical facilities. Yongkang Hospital is now equipped with around 200 beds and 300 staff.

The Company expects to enter into a hospital management agreement after the Completion with each of Dongyang Hospital and Yongkang Hospital by the end of 2018, upon which the Group expects to further broaden its revenue base with the new hospital management agreements.

Synergistic effect within the Group

In October 2017 and February 2018, the Group proposed to acquire (1) Jiande Hexu Enterprise Management Co., Ltd.* (建德和煦企業管理有限公司), which holds, inter alia, 70% equity interests in each of Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* (建德中醫院有限公司) ("**Jiande Hospital**"), a for-profit traditional Chinese medicine general hospital in Zhejiang Province and Zhejiang Dajia Medicines Co., Ltd.* (浙江大佳醫藥有限公司), a wholesaler of pharmaceutical products; and (2) Cixi Hongai Medical Management Co., Ltd.* (慈溪弘愛醫療管理有限公司), which manages Cixi Union Hospital* (慈溪協和醫院) ("**Cixi Hospital**"), a not-for-profit general hospital in Zhejiang Province through hospital management agreement. As a result, of the acquisitions, the Group will be able to establish its presence in Zhejiang Province, an area with sizable population, considerable purchase power and needs for medical resources. The Group will also recruit experienced staff in hospital management, medical experts as well as other hospital administrative staff, which will strengthen the Group's operational capacity and contribute to the Group's know-how in hospital management and operation. As at the Latest Practicable Date, the abovementioned acquisitions have completed.

The Hospitals are also located in Zhejiang Province, in close proximity to Jiande Hospital and Cixi Hospital, allowing the Group and the Hospitals to create a synergistic effect and to benefit from the resultant economies of scale within the Group. The Proposed Acquisition will enable the Group to further expand its hospital network and to magnify the synergistic effect within the Group through its consolidated and centralized management system, its unified investment and financing platform, supply chain platform and personnel training platform that can be implemented to all hospitals owned or managed by the Group.

The Group consolidates and centralizes the planning, development and management efforts of the hospitals it manages or owns at the Group level, which creates a standardized management system and allow the Group to establish a unified investment and financing platform, supply chain platform and personnel training platform that can be implemented to the Hospitals. As a result, the Group as enlarged by the Proposed Acquisition will benefit from the brand recognition and cost effectiveness due to economies of scale. For instance, the Hospitals are expected to benefit from the experience of the Group in hospital management and operation, to be in a better position to attain deals in procurement of goods and services, to take advantage of the Group's centralized and streamlined procurement system which addresses the redundancies of intermediates, as well as to benefit from the exchange of academic, research and clinical expertise among the other hospitals managed by the Group.

Business development and future prospects of Guangsha Medical

After Completion, the Company plans to provide consultancy and management services to the Hospitals through Guangsha Medical under hospital management agreement entered into or to be entered into between Guangsha Medical and each of the Hospitals, with the view to facilitate the business development of the Hospitals according to their medical specialties, unique circumstances and special development needs. In particular:

(a) Medical professional staff management and training

Guangsha Medical will increase its involvement in the management of the Hospitals by recruiting hospital management staff and expanding the scope of the management services. It will also provide trainings to the managements and medical professionals of the Hospitals with a view to improve their management ability and professional skills. Furthermore, it will seek to establish an effective performance evaluation system of the Hospitals and provide performance-based incentive to the medial professional staffs.

(b) Business development of the Hospitals

- *Jinhua Hospital*. Guangsha Medical will assist Jinhua Hospital in further advance its operations by recruiting medical experts, optimizing its use of space and expand its operational scope to new practice areas including stomatology and rehabilitation, with a view to attract more patients, expand the market share of its specialties in oncology and cancer treatment and to provide better services to the local residents.

- *Yongkang Hospital*. Yongkang Hospital is a Class IIB Hospital first established in 1952, and provides general medical services with advantages in stomatology, ophthalmology, gynecology and obstetrics. Guangsha Medical will assist Yongkang Hospital in development of its advantages by focusing on the treatment of common diseases, frequently re-occurring diseases and chronic diseases and provision of better services to its patients.

- *Dongyang Hospital*. Dongyang Hospital is constructed and developed as a Class II Hospital and was put into operation in June 2013. Guangsha Medical will assist Dongyang Hospital in establishing its standing as a regional medical platform with focuses on gerontology and common diseases like cardiovascular diseases and respiratory diseases.

The Company believes that through such efforts in business development, the Hospitals will be able to improve their patient's satisfaction rate, attract new customers as well as increase patient revisit rate, and in turn generate higher return for the Hospitals and for the Group. As at the Latest Practicable Date, save as disclosed in the section headed "Appendix IV — Management Discussion and Analysis of the Target Group — Business Review and Prospects — Capital Commitment" in this circular, the Company does not have further commitment in the Target Group.

The Company will continuously monitor the operations and performance of the Target Group primarily through the following methods:

(a) the Company will hold monthly, quarterly and annual meetings to review, discuss and give guidance on the business development and operational performance of the Hospitals;

(b) the medical experts team of the Company will visit and give guidance to the Hospitals from time to time;

(c) the Company will monitor the daily operational data of the Hospitals such as patient visits and revenue from their daily reports; and

(d) the Company will engage professional consultants to collect feedback from patients and to evaluate and monitor the service quality of the Hospitals.

It is the business strategy of the Company to continue to select, acquire and invest in hospitals that meet its investment criteria leveraging its industry knowledge and experience in operating and investing in hospitals. As at the Latest Practicable Date, save as the potential acquisition of 70% equity interests in a management company which indirectly owns 100% equity interest in a hospital in Guangzhou as announced in the announcement of the Company dated December 22, 2017, the Company does not have any concrete intention or plan to acquire any new business, nor does it have any intentional or plan to dispose its existing business. The Company is not aware of any particular disadvantage of the Proposed Acquisition.

The Proposed Acquisition

The Company did not seek to acquire any acquisition target, including the Target Group, at the time of listing of the Company on the Stock Exchange (the "**Listing**") mainly due to the ongoing listing work stream as well as the financial restraint the Company as a private company was facing. At the time of Listing, the Company hadn't identified any specific target of acquisition, nor had it adopted any concrete timetable or expected capital expenditure plan to implement any acquisition. Upon listing and in the mid-year of 2017, as part of the Company's business strategy to establish a regional medical service center from its then establishment in Shanghai, the Company embarked on visiting hospitals in the Yangtze River Delta region in contemplation of possible investments opportunities. In September 2017, the Company started initial negotiation with the Vendor regarding the Proposed Acquisition, and subsequently commenced initial discussion on the terms of the Proposed Acquisition and due diligence works.

The controlling shareholders of the Company (being Hony Capital Fund V GP Limited and its relevant investment entities through which it holds interest in the Company) have been and will continue to observe the deed of non-competition they entered into in favor of the Company at the Listing, and are not currently and will not in the future operate any business in the geographical location of the Target Company that will compete with the business of the Company. As at the Latest Practicable Date, apart from the Proposed Acquisition and the Subsequent Acquisition in respect of the Remaining Interest, the Company did not have any intention nor has entered into any arrangement, agreement, understanding or negotiation with its controlling shareholders, the Vendor, or their respective associates to acquire any business. The Company has remained a clear business delineation between the Company and its controlling shareholders and is able to continuously enforce the aforesaid deed of non-competition.

The Board (including the independent non-executive Directors but excluding the Abstained Directors who have abstained from voting at the relevant Board meeting) considers that the terms of the Share Purchase Agreement and the Proposed Acquisition are fair and reasonable and on normal commercial terms, and after considering the strong operating conditions and the potential growth of the Hospitals and the synergistic effect arising from the Proposed Acquisition as disclosed above, considers the Proposed Acquisition in the interests of the Company and the Shareholders as a whole.

J. FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

The Directors have considered the pro forma financial information of the Enlarged Group as set out in Appendix III and noted the following significant financial effects of the Proposed Acquisition (assuming completion of the Proposed Acquisition on December 31, 2017 ("**Pro Forma Completion Date**")) to the Group as enlarged by the Proposed Acquisition, as compared to the financial position of the Group as of December 31, 2017.

Impact on assets and liabilities

On the Pro Forma Completion Date, all the identifiable assets and liabilities of the Target Group would be stated at fair value and consolidated into the consolidated financial statements of the Company. The financial effects of the Proposed Acquisition to the Group as enlarged by the Proposed Acquisition, as compared to the financial position of the Group as at December 31, 2017 are as follows:

	Prior to the Completion	**On Pro Forma Completion Date (pro forma of the Group and the Target Group)**	**Change**	
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	%
Total assets	1,965,516	2,985,446	1,019,930	51.9%
Net assets	1,562,125	1,465,018	(97,107)	(6.2)%
Total liabilities	403,391	1,520,428	1,117,037	276.9%

Impact on earnings

As set out in the 2017 annual report of the Group, the Group generated an audited net loss from continuing operations after tax for the year ended December 31, 2017 of approximately RMB3.7 million. As set out in the accountant's report of the Target Group in Appendix II to this circular, the Target Group recorded a net loss of RMB0.5 million for the year ended December 31, 2016 but recorded a profit of RMB25.1 million for the year ended December 31, 2017.

Following Completion, the Target Company will become a subsidiary of the Company and its financial results, including but not limited to the revenue, costs and profit of the Target Company will be consolidated into the consolidated financial statements of the Company after Completion. With reference to the historical financial performance of the Target Company, the Directors are of the view that the Proposed Acquisition would have a positive impact on the future earnings of the Group subsequent to Completion in the long run.

Impact on liquidity

Since the Consideration of the Proposed Acquisition is to be satisfied by issue of Convertible Bonds, payment of the Consideration will not have a significant impact on the liquidity of the Enlarged Group. The Directors, after due and careful consideration, are of the opinion that, taking into account the financial resources available to the Enlarged Group, the Enlarged Group will have sufficient working capital for at least 12 months from the date of this circular. Having considered the above, the Directors considered the Proposed Acquisition would not result in significant liquidity issues of the Enlarged Group.

K. LISTING RULES IMPLICATION

As the applicable percentage ratios in respect of the Proposed Acquisition exceed 25% but all are less than 100%, the Proposed Acquisition constitutes a major transaction of the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Company is indirectly held as to 70.19% by Hony Fund V, which is ultimately managed by Hony Capital Fund V GP Limited. The Vendor is ultimately managed by Hony Capital Fund VIII GP (Cayman) Limited, while Kangshou is managed by Hony Capital Management (Tianjin) (Limited Partnership). As Hony Capital Fund V GP Limited, Hony Capital Fund VIII GP (Cayman) Limited and Hony Capital Management (Tianjin) (Limited Partnership) are all investment management companies of Hony Capital, the Board deems Kangshou as a connected person of the Company for the purpose of the Subsequent Acquisition, and the Proposed Acquisition and the granting of option to Kangshou under the Undertaking Letter constitute connected transactions of the Company subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Upon Completion, Kangshou will become a connected person of the Company by virtue of it being a substantial shareholder of Guangsha Medical.

The Abstained Directors, Mr. Zhao John Huan, by virtue of his 49% equity interests in Exponential Fortune Group Limited, which in turn manages and controls the Vendor, and Mr. Lin Sheng, by virtue of his directorship in Guangsha Medical, are deemed to have material interests in the Proposed Acquisition, and have abstained from voting on the relevant board resolutions approving the Proposed Acquisition.

L. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Chen Xiaohong, Mr. Shi Luwen and Mr. Zhou Xiangliang, has been established in compliance with the Listing Rules to advise the Independent Shareholders as to whether the terms of the Proposed Acquisition (including the issue of the Convertible Bonds and the allotment and issue of Conversion Shares) are fair and reasonable, and the Proposed Acquisition is on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole and to give its recommendations as to the voting in respect of the resolution(s) to be proposed at the EGM for approving the Acquisition and the Specific Mandate.

The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

M. EGM

The notice convening the EGM to be held at 1602, Tower B, Jin Qiu International Building, No. 6, Zhichun Road, Haidian District, Beijing, PRC on July 10, 2018 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM (or any adjourned meeting thereof) in person should you so desire.

An EGM will be held for the Independent Shareholders to consider and, if thought fit, approve the Proposed Acquisition and the Specific Mandate. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, except for Vanguard Glory and Midpoint Honour, which are deemed to have material interests in the Proposed Acquisition, no other Shareholder will be required to abstain from voting in relation to the resolution to approve, among other things, the Proposed Acquisition and the Specific Mandate at the EGM.

To the extent that the Company is aware and having made all reasonable enquiries, as at the Latest Practicable Date, there is no voting trust or other agreement, arrangement or understanding entered into by or binding upon any Shareholders and none of the Shareholders is subject to any obligation or entitlement, whereby such Shareholder has or might have temporarily or permanently passed control over the exercise of the voting right in respect of its shares in the Company to a third party, whether generally or on a case-by-case basis.

N. RECOMMENDATION

The Board (including the independent non-executive Directors but excluding the Abstained Directors who have abstained from voting at the relevant Board meeting) considers that the terms of the Proposed Acquisition (including the issue of the Convertible Bonds and the allotment and issue of Conversion Shares) are fair and reasonable, and the Proposed Acquisition is on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the independent non-executive Directors but excluding the Abstained Directors) recommends the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve the Proposed Acquisition and the Specific Mandate.

O. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Shareholders and potential investors of the Company should note that Completion 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.

By order of the Board
Hospital Corporation of China Limited
Zhao John Huan
Chairman

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)

June 24, 2018

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE SHARE CAPITAL IN ORIENTAL ALLY HOLDINGS LIMITED

We refer to the circular (the "**Circular**") dated June 24, 2018 issued by the Company of which this letter forms part. Capitalized terms used in this letter shall have the same meaning as those defined in the Circular unless otherwise specified.

We have been authorised by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders on the Proposed Acquisition and the Specific Mandate, details of which are set out in the "Letter from the Board" contained in the Circular.

We wish to draw your attention to the letter from the Board set out on pages 9 to 46 of the Circular and the letter of advice from the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the Proposed Acquisition and the Specific Mandate are fair and reasonable set out on pages 49 to 74 of the Circular.

Having considered, among other matters, the factors and reasons considered by and the opinion of the Independent Financial Adviser as stated in its letter of advice and the terms and conditions of the Share Purchase Agreement, including the Consideration which have been reached after arm's length negotiations among the parties, we consider that the terms of the Proposed Acquisition (including the issue of the Convertible Bonds and the allotment and issue of Conversion Shares) are fair and reasonable, and the Proposed Acquisition is on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Acquisition and the Specific Mandate.

Yours faithfully,
for and on behalf of the
Independent Board Committee
Hospital Corporation of China Limited

Ms. Chen Xiaohong
Mr. Shi Luwen
Mr. Zhou Xiangliang

Independent non-executive Directors

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser prepared for the purpose of incorporation in this circular.

AMASSE CAPITAL
寶 積 資 本

June 24, 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN ORIENTAL ALLY HOLDINGS LIMITED

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms and conditions of the Share Purchase Agreement, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated June 24, 2018 (the "**Circular**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 29 May 2018 (after trading hours of the Stock Exchange), the Company and the Vendor entered into the Share Purchase Agreement pursuant to which, the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell the entire issued share capital of the Target Company at the Consideration. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company.

As the applicable percentage ratios in respect of the Proposed Acquisition exceeds 25% but all are less than 100%, the Proposed Acquisition constitutes a major acquisition of the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Company is indirectly held as to 70.19% by Hony Fund V, which is ultimately managed by Hony Capital Fund V GP Limited. The Vendor is ultimately managed by Hony Capital Fund VIII GP (Cayman) Limited, while Kangshou is managed by Hony Capital Management (Tianjin) (Limited Partnership). As Hony Capital Fund V GP Limited, Hony Capital Fund VIII GP (Cayman) Limited and Hony Capital Management (Tianjin) (Limited Partnership) are all investment management companies of Hony Capital, the Board deems Kangshou as a connected person of the Company for the purpose of the Subsequent Acquisition, and the Proposed Acquisition and the granting of option to Kangshou under the Undertaking Letter constitute connected transactions of the Company subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Upon Completion, Kangshou will become a connected person of the Company by virtue of its being a substantial shareholder of Guangsha Medical.

The Independent Board Committee, comprising of all independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Proposed Acquisition and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have not acted as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for any transaction.

With regard to our independence from the Company, it is noted that, apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company (the "**Management**"). We have reviewed information on the Company, including but not limited to, (i) the announcement of the Company dated 29 May 2018, (ii) the Share Purchase Agreement, (iii) annual reports of the Company for each of the years ended 31 December 2016 (the **"2016 Annual Report"**) and 31 December 2017 (**the "2017 Annual Report"**), (iv) the valuation report prepared by the Company's independent valuer, D&P China (HK) Limited and (v) other information contained in the Circular. We have assumed that all information and representations that have been provided by the Management, for which the Directors are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the representation and confirmation of the Management that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Proposed Acquisition. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular as a whole misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Management, nor have we conducted any independent in-depth investigation into the business and affairs of any members of the Group, the counter party(ies) to the Proposed Acquisition or their respective subsidiaries or associates. We also have not considered any taxation implication on the Group or the Shareholders as a result of the Proposed Acquisition. We have not carried out any feasibility study on the past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group. Our opinion has been formed on the assumption that any analysis, estimation, anticipation, condition and assumption provided by the Group are feasible and sustainable. Our opinion shall not be construed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. We expressly disclaims any liability and/or any loss arising from or in reliance upon the whole or any part of the contents of this letter.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Proposed Acquisition as contemplated under the Share Purchase Agreement, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

As stated in the Letter from the Board, 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 principally engaged in hospital management business and general hospital business in China.

Certain summary financial information of the Group as extracted from the 2017 Annual Report and the 2016 Annual Report is set out below:

	Year ended 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
	(audited)	*(audited)*
Revenue	149,158	130,882
Gross profit	87,838	81,539
Total comprehensive income for the year attributable to owners of the Company		
- Continuing operations	(24,055)	23,445
- Discontinued operations	10,306	623

	As at 31 December 2017	**As at 31 December 2016**
	RMB'000	*RMB'000*
	(audited)	*(audited)*
Total assets	1,965,516	1,287,577
Total liabilities	403,391	126,634
Total equity	1,562,125	1,160,943

During the year ended 31 December 2017, the Company recorded audited consolidated revenue of approximately RMB149.2 million, representing an approximately 14.0% increase over the audited consolidated revenue of approximately RMB130.9 million generated in the year ended 31 December 2016. The 14.0% increase in revenue from continuing operations was attributable to the increase of the management service fees income during the year under review (2016: RMB129.6 million, 2017:

RMB147.6 million). The increase in management service fees income was due to the continued effort of the Company in improving the service quality and operating efficiency of Shanghai Yangsi Hospital through a standardized and streamlined management system that covers the expansion of services scope, provision of training and incentive, and implementation of performance review mechanism.

Furthermore, the Group recorded a net loss attributable to owners of the Company (including continuing and discontinued operations) of RMB13.7 million for the year under review, as compared to the net profit attributable to owners of the Company (including continuing and discontinued operations) of approximately RMB24.1 million in 2016. This decrease in profit for the year and a net loss attributable to owners of the Company are mainly attributable to the following extraordinary items incurred during the year under: (a) the cost of revenue of RMB38.0 million resulting from the share-based awards; (b) the accrued professional service fees and other expense relating to the listing of RMB25.6 million; (c) an exchange loss of RMB21.4 million recorded as finance costs and other losses due to (i) the translation of RMB, the operating currencies, to U.S. dollars for the payment of professional fees and acquisition of subsidiary during the year, and (ii) the translation of the deposits denominated in U.S. dollars or Hong Kong dollars into Renminbi, the deposit was primarily comprised of the unutilized proceeds from listing and the exercise of the over-allotment option; and (d) the expenses and accrued professional service fees of RMB11.2 million resulting from the acquisition of Jiande Hexu Enterprise Management Co., Ltd. and the potential acquisitions of hospitals and hospital management companies. The Company considers that the above-mentioned extraordinary items are not indicative of the operating performance of the Company's business in the year under review. The Company also considers that the expenses related to the listing and the share-based awards are non-recurring expenses, and anticipates that fluctuations in Renminbi exchange rate and expenses related to potential acquisitions of hospitals and hospital management companies may continue to have an impact on the financial results of the Group in the future.

As at 31 December 2017, the Group has audited consolidated total assets, total liabilities and total equity of approximately RMB1,965.5 million, approximately RMB403.4 million and approximately RMB1,562.1 million respectively.

2. Background information on the Target Group and the Hospitals

The Target Company is an investment holding company established in the British Virgin Islands with limited liability. As at the Latest Practicable Date, the Target Company directly owns the entire share capital in the Holdco, which in turn owns 75% share capital in Guangsha Medical. The Holdco acquired the 75% equity interest in Guangsha Medical in April 2016 from an independent third party at a total consideration of RMB600 million while Kangshou at the same time acquired the remaining 25% from the same vendor with a proportionate consideration of RMB200 million.

As of the Latest Practicable Date, Kangshou held the remaining 25% equity interest of Guangsha Medical. Guangsha Medical is one of the founders of each of the Hospitals and holds 80%, 80% and 65% of the start-up capital in Jinhua Hospital, Dongyang Hospital and Yongkang Hospital, respectively. As at the Latest Practicable Date, Guangsha Medical manages Jinhua Hospital pursuant to the Hospital Management Letter of Intent and the Hospital Management Agreement 2017. The accounts of the Hospitals are not consolidated into the consolidated financial statements of the Target Company.

Set out below is the audited consolidated financial information of the Target Group for the years ended December 31, 2016 and 2017.

	For the financial year ended December 31,	
	2016	**2017**
	RMB'000	*RMB'000*
Revenue	—	37,694
Net (loss)/profit before taxation	(1,800)	33,579
Net (loss)/profit after taxation	(501)	25,148
Add back: One-off expenses*	—	1,635
Adjusted net (loss)/profit after taxation	(501)	26,783
Adjusted net (loss)/profit attributable to shareholders	(537)	20,050

** The one-off expenses represent the payment of professional service fees to the auditors in relation to the Proposed Acquisition.*

Guangsha Medical entered into the Hospital Management Agreement 2017 with Jinhua Hospital with a term of three years commencing from January 1, 2017 to January 1, 2020, and the Target Group started to charge service fees from Jinhua Hospital from the financial year ended December 31, 2017.

The audited consolidated total and net asset value of the Target Group as at December 31, 2017 were approximately RMB703.4 million and RMB623.1 million, respectively.

Please also refer to "Appendix II — Accountant's Report of the Target Group" and "Appendix IV — Management Discussion and Analysis of the Target Group" in the Circular for further information on the financial performance of the Target Group.

Jinhua Hospital, located in Jinhua city of Zhejiang province, is constructed and developed as a general Class IIIB Hospital and registered as a Privately-funded Non-enterprise Entity providing comprehensive medical services with specialty in oncology and cancer treatments. Dongyang Hospital, located in Dongyang, Jinhua city of Zhejiang province, is constructed and developed as a Class II Hospital and registered as a Privately-funded Non-enterprise Entity providing comprehensive medical services on common, frequently-occurring and chronic diseases and serving as a medical service center for local residents. Yongkang Hospital, located in Yongkang city of Zhejiang province, is constructed and developed as a Class IIB Hospital and registered as a public institution providing general medical services on common, frequently-occurring and chronic diseases and serving as a regional medical platform for focused medical treatment.

The following table sets forth the key financial information of Jinhua Hospital for the years ended December 31, 2015, 2016 and 2017 based on its management accounts prepared in accordance with International Financial Reporting Standards:

	As of or for the year ended December 31,		
	2015	**2016**	**2017**
Revenue (RMB'000)[1]	470,435	505,218	514,396
Cost of revenue (RMB'000)	(391,231)	(422,436)	(446,930)
Gross profit (RMB'000)	79,204	82,782	67,466
Gross profit margin	16.8%	16.4%	13.1%
In-patients			
Occupancy rate of beds in operation[2]	101%	100%	98%
Number of in-patient visits	31,675	32,697	33,858
Total revenue from in-patient services (RMB'000)[1]	379,572	412,482	411,950
Average revenue per in-patient visit (RMB)	11,983	12,615	12,167
Out-patients			
Number of out-patient clinic visits	162,517	167,814	180,776
Total revenue from out-patient clinic services (RMB'000)[1]	75,008	77,532	84,283
Average revenue per out-patient clinic visit (RMB)	462	462	466
Number of medical check-up visits	31,754	28,874	30,710
Total revenue from medical check-up services (RMB'000)[1]	15,856	15,205	18,164
Average revenue per medical check-up visit (RMB)	499	527	591
Net income (RMB'000)[3]	17,611	30,803	12,192
Net income margin[4]	3.7%	6.1%	2.4%
Current ratio[5]	0.35	0.36	0.81
Quick ratio[6]	0.31	0.32	0.76
Debt ratio[7]	1.18	1.13	1.11

Notes:

1. Revenue derived from the provision of in-patient services and out-patient services. Revenue from out-patient services is generated from out-patient clinic services and medical check-ups.
2. Occupancy rate exceeded 100% because hospital beds are used by more than one patient each day to satisfy demand, which the Company believes was in line with the hospital's social responsibilities.
3. Refers to after-tax net income, not including other comprehensive income.
4. Equals net income for the period divided by revenue for the period and multiplied by 100%.
5. Equals current assets divided by current liabilities as at the respective financial period-end date.
6. Equals current assets less inventories and divided by current liabilities as at the respective financial period-end date.
7. Equals total liabilities divided by total assets as at the respective financial period-end date.

3. Information on the Vendor

The Vendor, the sole shareholder of the Target Company, is an exempted limited partnership formed in Cayman Islands and is managed by Hony Capital Fund VIII GP (Cayman) Limited. Hony Capital Fund VIII GP (Cayman) Limited is ultimately held as to 49% by Mr. Zhao John Huan, the Chairman and a non-executive Director of the Company, as to 25.50% each by Mr. Cao Yonggang and Mr. Xu Minsheng, respectively. The series of private equity investment funds (including the Vendor), together with their respective companies/general partners were founded to capture investment opportunities as a private equity platform.

4. Principal terms of the Share Purchase Agreement

As stated in the Letter from the Board, the principal terms and conditions of the Share Purchase Agreement are set out below.

Date:	May 29, 2018 (after trading hours of the Stock Exchange)
Parties:	a) the Company as purchaser; and b) the Vendor as seller. As at the Latest Practicable Date, the Company is held as to 70.19% by Vanguard Glory, a subsidiary of Hony Fund V, and Hony Fund V is managed by Hony Capital Fund V GP Limited. The Vendor is managed by Hony Capital Fund VIII GP (Cayman) Limited. Both Hony Capital Fund V GP Limited and Hony Capital Fund VIII GP (Cayman) Limited are investment management companies of Hony Capital.
Subject Matter:	The Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the entire issued share capital in the Target Company. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company. As at the Latest Practicable Date, the Target Company indirectly owns 75% share capital in Guangsha Medical, which is one of the founders of the Hospitals and manages Jinhua Hospital pursuant to the Hospital Management Letter of Intent and the Hospital Management Agreement 2017. Further information of the Target Group is set out in the paragraph “Information of the Target Group and the Hospitals” in the Letter from the Board.

Refundable Deposit:	Within two weeks of the date of the Share Purchase Agreement, the Company shall deposit RMB50,000,000, being a refundable deposit (the "**Deposit**"), into an escrow account under the name of the Vendor or its subsidiary, to which the Company shall be a joint signatory. The Deposit shall be refunded in full to the Company if (1) the Share Purchase Agreement is completed pursuant to its terms; (2) any of the Conditions is not fulfilled or waived in accordance with the Share Purchase Agreement before the Long Stop Date; or (3) the Share Purchase Agreement is terminated according to its terms.
Conditions:	Completion shall be conditional upon satisfaction or waiver (as applicable) of each of the following Conditions:

(a) the passing of all necessary resolutions by the advisory committee, board of directors and/or shareholders (or, where applicable, the independent shareholders) (as the case may be) of the Company and the Vendor;

(b) (i) all requisite filings or registrations having been made with, and (ii) all requisite governmental authorisations on terms and conditions satisfactory to the Company having been obtained from, all applicable governmental entities, or other third parties which are necessary in connection with the execution and performance of the Share Purchase Agreement and any transaction contemplated therein (if any);

(c) the Stock Exchange granting or agreeing to grant approval for the listing of and permission to deal in the Conversion Shares (either unconditionally or if subject to conditions, if required by the Stock Exchange to be fulfilled before Completion, such conditions being fulfilled and satisfied before Completion) and such listing and permission remaining in full force and effect and not subsequently revoked;

(d) all third party consents to the transfer of the entire issued share capital of the Target Company pursuant to the Share Purchase Agreement that are required under any contract to which any of the Target Group Companies and the Hospitals is a party having been obtained, it being understood that a consent will be deemed required under a contract if the lack of it may result in a breach of, or constitute (with or without notice or lapse of time or both) a default and/or give rise to a third party right of termination, cancellation, modification, payment or acceleration under, such contract;

(e) the Vendor having performed and complied with all covenants and obligations required to be performed or complied with by it under the Share Purchase Agreement on or before Completion and the Vendor having delivered to the Company a certificate to that effect in the agreed form at Completion;

(f) each of the warranties given by the Company and the Vendor pursuant to the Share Purchase Agreement being complete, true and accurate and not misleading as at the date of the Share Purchase Agreement and at Completion as though restated on and at Completion with respect to facts, events and circumstances existing as at such date and the Vendor having delivered to the Company a certificate to that effect in the agreed form at Completion;

(g) each of the transaction documents required under the Share Purchase Agreement having been duly executed and delivered by each of the parties thereto (other than the Company);

(h) the Undertaking Letter having been duly executed and delivered by the parties thereto; and

(i) there having been no actual or threatened termination of the Hospital Management Letter of Intent and the Hospital Management Agreement 2017.

Except for the above Conditions (a), (b) and (c) which cannot be waived, the Company shall have the discretion to waive the Conditions. The reason for empowering the Company to waive the above Conditions is to allow more flexibility to the Company to manage the Proposed Acquisition if circumstances required. As of the Latest Practicable Date, none of the Conditions has been fulfilled and the Company has no intention to waive any of the Conditions. The Company will not waive any of the Conditions if the waiver of such Condition 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, if any, will affect the substance of the Proposed Acquisition.

As one of the Conditions, the Company proposes to execute the Undertaking Letter in favour of the Guangsha Minority Shareholders, pursuant to which the Company undertakes to acquire the remaining 25% equity interests in Guangsha Medical (the **"Remaining Interest"**) held by Kangshou (the**"Subsequent Acquisition"**), no later than the date falling on the third anniversary of the Completion Date.

We note that (i) the purchase price of the Subsequent Acquisition will not be less than RMB210 million (calculated as RMB630 million/75%x25%) plus other reasonable expenses incurred by the Guangsha Minority Shareholders in connection with their investment in Guangsha Medical and with reference to the valuation of the Remaining Interest to be conducted by an independent professional valuer appointed by the parties thereunder as of the date of the acquisition of the Remaining Interest (the "**Remaining Interest Purchase Price**"); and (ii) the Subsequent Acquisition will not be entered into nor completed by the parties until the fulfillment of the following conditions: (a) the acquisition of the Remaining Interest having complied with all applicable requirements under the Listing Rules or any other applicable laws, rules and regulations; (b) if required by the Listing Rules, the Company having obtained the approval by independent shareholders at general meeting of the Company in respect of the acquisition of the Remaining Interest; and (c) the independent board committee and, if required by the Listing Rules, the independent financial adviser as appointed for the purpose of the acquisition of the Remaining Interest having forming the view that the terms of the acquisition of the Remaining Interest are fair and reasonable, on commercial terms or better and in the interests of the Company and its Shareholders as a whole.

The Board is positive about the future prospects of the Target Group and is not aware of any foreseeable factors which may result in decrease in the valuation of the Remaining Interest, and therefore considers the minimum Remaining Interest Purchase Price to be fair and reasonable and in the Shareholders' interest as a whole. We concur with the Management that the appraised value of the Remaining Interest will be unlikely to be less than RMB210 million after having considered the following factors:

(i) the historical financial performance of the Target Group and Jinhua Hospital, in particular, Jinhua Hospital recorded a stable growth in revenue increasing from RMB470.4 million to RMB514.4 million, as well as a stable increase both in the numbers of in-patient and out-patient visits for the three years ended 31 December 2017;

(ii) the Hospitals are all located in Jinhua City in central Zhejiang Province with close proximity with each other and the other hospitals owned or managed by the Group, which is expected to create synergistic effect within the Group;

(iii) there is a continuous trend of aging population and a trend of increase in chronic, common and/or frequently-occurring diseases in China which is expected to create increasing demand for healthcare services in China;

(iv) the potential growth in PRC healthcare services sector by favourable support from the PRC government and the increase in capita health expenditure which are further discussed in the section headed "6. Reasons for and benefits of the Proposed Acquisition" below.

In view of the above factors, and in particular, the Subsequent Acquisition will not be entered into nor completed by the parties unless the independent financial adviser as appointed for the purpose of the acquisition of the Remaining Interest having forming the view that the terms of the acquisition of the Remaining Interest, which will include the purchase price of the Subsequent Acquisition of not less than RMB210 million, are fair and reasonable, we consider that the arrangement mechanism under the Undertaking Letter is fair and reasonable as a whole.

Long Stop Date:	In the event that any of the Conditions is not fulfilled or waived on or before the Long Stop Date, then the party not in default shall have the right, but not the obligation, by written notice to the other party, to: (a) defer Completion to after the Long Stop Date; (b) proceed to Completion so far as practicable (without prejudice to its rights under the Share Purchase Agreement); or (c) rescind the Share Purchase Agreement. The Specific Mandate will be valid from the date of passing of the relevant resolutions at the EGM to January 8, 2019, being the fifth (5th) Business Day after December 31, 2018, and will cease to be effective if any of the Conditions has not been satisfied or, if applicable, waived by the Company or the Vendor (as the case may be) on or prior to December 31, 2018 or on such other date as the parties may agree in writing. In such case, the Company will comply with the applicable Listing Rules, and seek approval from its Shareholders or Independent Shareholders where required.
Completion:	Completion shall take place on the fifth (5th) Business Day immediately after the fulfilment or waiver of all the Conditions (other than those conditions that by their terms are intended to or may be fulfilled at Completion). Upon Completion, the Target Company will become a direct wholly-owned subsidiary of the Company and accordingly, the financial results of the Target Group will be consolidated into the accounts of the Group. The Company expects Completion to take place on or before December 31, 2018 (namely the Long Stop Date).
Indemnity:	The Vendor undertakes to indemnify the Company from and against all material losses suffered or incurred by the Company, any Target Group Company and the Hospitals as a consequence of or which would not have arisen but for: (a) any material breach or inaccuracy of any representation or warranty made by the Vendor in the transaction documents in relation to the Proposed Acquisition; or

(b) any material failure by the Vendor to perform any of its obligations under the Share Purchase Agreement and the transaction documents required thereunder in relation to the Proposed Acquisition.

5. Analysis on the Consideration

As stated in the Letter from the Board, the Consideration shall be RMB630 million (equivalent to approximately HK$773,879,717) and shall be satisfied by issue of the Convertible Bonds in the total amount of HK$773,879,717 by the Company to the Vendor (or such Person as the Vendor may nominate) on Completion.

As advised by the Management, the Consideration was arrived at after arm's length negotiations between the Vendor and the Company after taking into account, among other things, (i) the appraised value of the Target Company with a range from RMB592 million to RMB678 million (the "**Valuation**") pursuant to the Valuation Report; (ii) the price-to-earnings multiple ("**P/E Multiple**") represented by the comparable companies that primarily provide hospital management services or found hospitals in China and share similar business model with the Target Group (the "**Comparable Companies**"); (iii) comparable transactions which involved acquisition of target companies in the industry of provision of hospital and clinical services in the PRC (the "**Comparable Transactions**"); (iv) historical financial performance of the Target Group; (v) the future prospects of Guangsha Medical and potential economic benefits from providing management services to Dongyang Hospital and Yongkang Hospital; and (vi) the benefits to be derived by the Group from the synergistic effects, the resultant economies of scale arising from the Proposed Acquisition and other factors as described under the section headed "I. Reasons for and Benefits of the Proposed Acquisition and the Future Prospect of the Target Group" in the Letter from the Board.

(i) ***Appraised value according to the Valuation Report***

We have considered and reviewed, among others, the Valuation of the Target Company as of 31 December 2017 prepared by D & P China (HK) Limited (the "**Valuer**"), details of which are set out in Appendix V to the Circular. We discussed with the Valuer regarding the methodology of and the principal bases and assumptions adopted for the Valuation.

(a) *Competence of the Valuer*

As part of our due diligence, we have reviewed the qualification and experience of the Valuer and the persons in charge of the Valuation. We note that the Valuer is a qualified professional valuation firm with extensive experience in providing advisory in the areas of valuation, corporate finance, disputes and investigations, compliance and regulatory matters, and other governance-related issues. We understand that Mr. Patrick Wu and Mr. Kevin Leung, who are the signatories of the Valuation Report. Mr. Kevin Leung has extensive experiences in business valuation for the purpose of joint venture, merger and acquisition and public listing. Mr. Patrick Wu has extensive experience in providing professional consulting services for a wide range of public organizations and business sectors in Hong Kong and the PRC, professional development, quality assurance and business development.

In addition, we have also reviewed the terms of the Valuer's engagement and are satisfied the terms of engagement and the scope of work of the Valuer is appropriate to the opinion the Valuer is required to give. Furthermore, we have enquired with the Valuer as to its independence from the Group, and understood that the Valuer is an independent third party from the Group, the connected persons of the Group and the Vendor.

(b) *Valuation methodologies*

We have reviewed the Valuation Report and discussed with the Valuer for the methodologies adopted by the Valuer, we understood that the Valuer has considered three generally accepted approaches, namely the cost approach, market approach and income approach. We have enquired into and the Valuer explained that the cost approach and income approach are not appropriate for the valuation of 100% equity interest in the Target Company. The reasons are that (i) the cost approach is generally not considered applicable to the valuation of a going concern business, as it does not capture future earning potential of the business; and (ii) income approach result would be more dependent on long term financial forecast internally prepared by the Management, which is unobservable input and inherently subjective. We consider that the market approach provides a more objective indication of the market value of the Target Company and the market approach considers price recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. We concur that the market approach is suitable for the valuation of the Target Company.

We have discussed with the Valuer and are given to understand that the Valuation Report adopted (i) the guideline company ("**GCM**") method and used a market multiple for valuing the share capital by computing the multiple for the guideline companies adjusting for a control premium and lack of marketability discount, and (ii) the guideline transaction ("**GTM**") method using the price multiples of selected guideline transactions. The product of adjusted net profit of Guangsha Medical and selected multiples, which are derived from the guideline company method and the guideline transaction method respectively, was then multiplied by the Target Company's shareholding percentage of 75%, and added excess cash and non-operating assets held by the Target Company and Holdco to arrive at equity interest of the Target Group. According to the Valuation Report, the Valuer has identified 7 comparable companies (the "**GCM Comparables**") for the purpose of valuing the Target Company under the market approach using the GCM method and 10 comparable transactions (the "**GTM Comparables**") for the purpose of valuing the Target Company under the market approach using the GTM method. We have discussed with the Valuer concerning its selection criteria of the GCM Comparables and the GTM Comparables as disclosed in the Valuation Report and assessed the appropriateness of the GCM Comparables and the GTM Comparables selected. The Valuer has conducted its search of comparable companies through Bloomberg and comparable transactions through Mergermarket and Bloomberg, which are considered to be a reliable source for market information of the PRC and international markets. We have reviewed each of the GCM Comparables from public information and noted that the GCM Comparables are companies mainly engaged in the business of hospital services. We consider that the selection criteria of the GCM Comparables can effectively reflect the hospital services industry as at the date of the Valuation. As such, we are of the view that the GTM Comparables identified by the Valuer are fair and representative for comparison. Furthermore, we have reviewed each of the GTM Comparables from public information and note that the nature of businesses of acquired targets are similar to the businesses of the Target Group and the transactions have been completed over the past three years, which is considered to be reasonably reflected the recent market consensus. In view of the foregoing, we are in the view that the selection criteria adopted by the Valuer in identifying the GTM Comparables are fair and reasonable.

Premium for control is the additional value inherent in the controlling interest, as contrasted to a minority interest that reflects the power of control. The Valuer considered that the Group has proposed to acquire majority interest of the Target Company, thus a control premium is applied. We have discussed with the Valuer and understand that the control premium of 25% was adopted based on indications of control premiums from data on acquisition transactions in the healthcare industry over the past three years. We have referenced to ‘‘Control Premiums, Minority Discounts, and marketability Discounts’’ written by Philip Saunders. According to the aforementioned research paper, control premium usually ranges from 30.0% to 50.0%. Having considered that the control premium of 25% applied by the Valuer to the Valuation is lower than such ranges, we consider that applying 25% of control premium to the Valuation is reasonable.

Furthermore, as advised by the Valuer, the adjustments were made on the conclusion on the P/E multiples. The discount for lack of marketability (the "**DLOM**") apply in the Valuation under GCM method. The DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability. The DLOM is generally adopted to adjust the value of investment which is a privately held company while the price multiples applied in valuation is calculated from public listed companies, which represents marketable ownership interest. The adjustments for DLOM made by the Valuer for the purpose of the Consideration is, in our view, fair and reasonable, given that (i) the shares of the Target Company not being publicly tradable, a discount should be imposed to address the lack of marketability or lack of liquidity of the Target Group; (ii) our belief that the marketability discount is commonly used in the valuation of companies; and (iii) the Valuer has confirmed that the valuation methodology is consistent with the international valuation guidelines and such adjustments were made based on its professional experience and judgment. We have discussed with the Valuer and are given to understand that the option pricing method is being applied in determining the DLOM which is commonly used method for calculating the DLOM under the International Valuation Standards and the basis of assumptions used in option pricing method are consistent with the characteristics of the Target Company and the Proposed Acquisition. We concur that it is reasonable to apply the DLOM of 10% to the Valuation.

(c) *Valuation assumptions*

We have discussed with the Valuer in respect of the valuation assumptions applied in the Valuation. We noted that the valuation assumptions adopted by the Valuer are common assumptions adopted in business valuation, including but not limited to (i) no major changes are expected in political, legal and economic conditions in China; (ii) regulatory environment and market conditions for healthcare industry will be developing according to prevailing market expectations; (iii) there will be no major changes in the current taxation law applicable to the Target Company; (iv) the Target Company will not be constrained by the availability of finance; (v) the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations; and (vi) the Target Company will retain competent management, key personnel and technical staff to support their ongoing operation. We are not aware of any material facts which may lead us to doubt the principal basis and assumptions adopted for the Valuation.

As set out above, we are satisfied that (i) Valuer is independent from the Company and has sufficient experience and competency to perform the Valuation; (ii) scope of work of the Valuer is appropriate for the relevant engagement; and (iii) the valuation assumptions and methodologies used by the Valuer are fair and reasonable in relation to the Valuation. Based on the above, we are of the view that the Valuation performed by the Valuer is fair and reasonable. Taking into account the factors discussed above, we consider that the Valuation is an appropriate reference to assess the fairness and reasonableness of the Consideration and are of the view that the Consideration is fair and reasonable and in the interest of the Company and Shareholders as a whole.

(ii) ***P/E Multiple of GCM Comparables***

According to the Valuation Report, we have reviewed the P/E multiple of the GCM Comparables and note that the Consideration reflects an implied P/E Multiple of approximately 31.4 times, which falls within the range of the P/E Multiples of 15.69 times and 35.80 times of the Comparable Companies. We consider that the P/E Multiple of GCM Comparables are fair and reasonable.

(iii) ***P/E Multiple of GTM Comparables***

According to the Valuation Report, we have reviewed the P/E multiple of the GTM Comparables and note that the implied P/E Multiples of the GTM Comparables ranged from approximately 21.20 times to 57.97 times and implied P/E Multiple of approximately 31.4 times reflected by the Consideration falls within the range of the Comparable Transactions. We consider that the P/E Multiple of GTM Comparables are fair and reasonable.

(iv) ***Historical financial performance of the Target Group and Jinhua Hospital***

We have discussed with the Management and are given to understand that the Target Company indirectly owns 75% share capital of Guangsha Medical, and Guangsha Medical provides consultancy and management services to Jinhua Hospital in return for hospital management service fees calculated as a fixed percentage of Jinhua Hospital's revenue subject to adjustments based on performance indicators. As a result, the Board has taken into account the historical performance of the Target Group and Jinhua Hospital to arrive at the Consideration. The Target Group started to generate revenue subsequent to the provision of hospital management services to Jinhua Hospital by Guangsha Medical in 2017. In the year ended December 31, 2017, the Target Group recorded a consolidated revenue of RMB37.7 million and a consolidated gross profit of RMB36.3 million. For the three years ended December 31, 2015, 2016 and 2017, Jinhua Hospital recorded a stable growth in revenue increasing from RMB470.4 million to RMB514.4 million, as well as a stable increase both in the numbers of in-patient and out-patient visits. Based on the financial performance of the Target Group and Jinhua Hospital, we believe that the revenue growth trend of the Target Group and Jinhua Hospital have demonstrated promising future prospects of the Target Group.

(v) ***Future prospects of the Target Group and the Hospitals***

As stated in the Letter from the Board, the Target Group is principally engaged in the provision of management and consultancy services to hospitals for a service fee. It is providing management and consultancy services to Jinhua Hospital and is currently expected to expand its client base to include Dongyang Hospital and Yongkang Hospital by entering into a hospital management agreement with each of them by the end of 2018. Based on the in-depth industry expertise of the management of the Company, the Company is well-aware of the management model of Jinhua Hospital and the potential benefits from providing management services to the Hospitals in the future.

Jinhua Hospital is a general Class IIIB Hospital and registered as a Privately-funded Non-enterprise Entity located in Jinhua city, which offers comprehensive medical services with specialty in oncology and cancer treatments and is in the course of expanding its operation. Dongyang Hospital is constructed and developed as a Class II Hospital registered as a Privately-funded Non-enterprise Entity and was put into operation in June 2013, providing comprehensive medical services on common diseases, frequently re-occurring diseases and chronic diseases. Yongkang Hospital is a Class IIB Hospital registered as a public institution providing general medical services on common, frequently-occurring and chronic diseases and serving as a regional medical platform for focused medical treatment. The Hospitals are all located in Jinhua City in central Zhejiang Province with close proximity with each other and the other hospitals owned or managed by the Group, which, the Company expects, will create synergistic effect within the Group. Given that there is a continous trend of aging population and a trend of increase in chronic, common and/or frequently-occurring diseases in China, we believe that the demand for healthcare services in China will be relatively increasing.

Having considered the aforesaid factors, we concur with the views of the Directors that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5.1 ***The Convertible Bonds***

As extracted from the Letter from the Board, the principal terms of the Convertible Bonds are summarized below:

Issuer:	The Company
Principal Amount:	HK$773,879,717
Issue Price:	100% of the principal amount
Form and denomination:	Convertible Bonds are issued in registered form in the denomination of HK$1 each.
Issue Date:	the date of Completion
Maturity Date:	the date falling on the fifth (5th) anniversary of the date of issue of the Convertible Bonds, and if that is not a Business Day, the Business Day immediately following such date. The Company has no right to extend the maturity date of the Convertible Bonds.

Interest:	The Convertible Bonds do not bear any interest.
Conversion Shares:	Assuming the conversion rights attached to the Convertible Bonds are exercised in full at the initial Conversion Price of HK$20.00 per Conversion Share, a maximum of 38,693,985 Conversion Shares will be issued upon conversion of the Convertible Bonds (subject to adjustments), which represent (i) approximately 28.00% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 21.87% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds. The allotment and issue of the Conversion Shares are subject to the granting of the Specific Mandate by the Independent Shareholders at the EGM. There are no restrictions on any subsequent sale of the Conversion Shares. The allotment and issue of the Conversion Shares will not result in a change of control of the Company. The Conversion Shares upon issue will in all respects rank *pari passu* with the Shares then in issue.
Conversion Rights:	Subject to the restrictions set out below, the Bondholders shall have the right to convert the Convertible Bonds into Shares at any time on or after the date following six months from the date of issue of the Convertible Bonds up to the close of business on the Maturity Date.
Restriction on Conversion:	The Company is not obliged to issue Shares in satisfaction of the Conversion Rights in breach of its obligations under the Listing Rules (including but not limited to the minimum public float requirement) or the Takeovers Code.
Redemption upon Maturity and Early Redemption:	The Company will redeem the outstanding Convertible Bonds at its principal amount on the Maturity Date. The Company may not redeem the Convertible Bonds at its option prior to the Maturity Date except in the event that the Shares cease to be listed or admitted to trading on the stock exchange on which the Shares are then listed or quoted or dealt in.
Default interest:	If the Company fails to pay any sum in respect of the Convertible Bonds when the same becomes due and payable under the conditions of the Convertible Bonds, interest shall accrue on the overdue sum at the rate of 5% per annum from the due date and ending on the date on which full payment of principal and the relevant interest accrued is made to the Bondholders.

Transferability:	The Convertible Bonds may be assigned or transferred with prior written consent of the Company, save where such transfer is made to an Affiliate of the Bondholder(s). Any transfer of the Convertible Bonds shall be made in compliance with all applicable requirements under the Listing Rules and all applicable laws and regulations. Affiliate means, in respect of the Bondholder(s), any other person directly or indirectly controlling or controlled by or under direct or indirect common control with the Bondholder(s).
Status:	The Convertible Bonds constitute direct, unsubordinated, unconditional and unsecured obligations of the Company, and shall at all times rank *pari passu* and without any preference or priority among themselves.
Voting and other rights:	The Bondholders will not be entitled to receive notice of or attend or vote at general meetings of the Company by reason only of being the Bondholders. The Bondholders will not be entitled to participate in any distribution and/or offers of further securities made by the Company by reason only of being the Bondholders.
Listing:	No application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchanges. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Other terms of the Convertible Bonds are set out in the Letter from the Board for further details.

Analysis on the principal terms of the Convertible Bond

The initial Conversion Price is HK$20.00 per Conversion Share (subject to adjustments as set out in the paragraph headed "Adjustments to Conversion Price" in the Letter from the Board), which represents:

(a) a discount of approximately 0.50% to the closing price of HK$20.10 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of approximately 2.25% over the average closing price of approximately HK$19.56 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to and including the Last Trading Day;

(c) a premium of approximately 4.33% over the average closing price of approximately HK$19.17 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days immediately prior to and including the Last Trading Day;

(d) a premium of approximately 2.93% over the average closing price of approximately HK$19.43 per Share as quoted on the Stock Exchange for the last thirty (30) consecutive trading days immediately prior to and including the Last Trading Day;

(e) a premium of approximately 48.59% over the audited consolidated net assets per Share of approximately HK$13.46 as at December 31, 2017 (calculated by dividing the Group's audited consolidated net assets attributable to the Shareholders of approximately RMB1,514.11 million (approximately HK$1,859.90 million) as at December 31, 2017 by 138,194,000 Shares in issue as at the Latest Practicable Date); and

(f) a premium of approximately 8.70% over the closing price of HK$18.40 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

As advised by the Management, the Conversion Price was determined after arm's length negotiations between the Company and the Vendor with reference to the recent trading price and trading volume of the Shares on the Stock Exchange, and the assets, liabilities, financial performance and business condition of the Company. The Company also considered (i) the future prospects of the Company, including the growth potential by entering into the Proposed Acquisition; (ii) the lock-up restriction for a six months' period and the conversion restriction that the Convertible Bonds are subject to, as disclosed in "Conversion Rights" and "Restriction on Conversion" in the Letter from the Board; (iii) the fact that the Convertible Bonds bear no interest and therefore does not impose financing costs on the Company; (iv) the value of Conversion Price, which the Company considers to be comparable with the market practice; and (v) the factors disclosed in the section headed "I. Reasons for and Benefits of the Proposed Acquisition and the Future Prospect of the Target Group" in the Letter from the Board. Based on all the factors as aforementioned, the Board considers that the Conversion Price is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

As part of our analysis, we have identified transactions involving issue of convertible bonds as all or part of the consideration, announced by companies listed on the Stock Exchange from 30 May 2017 up to the date of the Announcement (being around twelve months period prior to the date of the Announcement) (the "**CB Comparables**"). To the best of our knowledge and as far as we are aware of, we identified an exhaustive list constituting 6 transactions which met the said criteria. We consider that the aforesaid review period is appropriate to capture the recent market practice because the CB Comparables are considered for the purpose of taking a general reference for the recent market practice in relation to issue of convertible bonds as all or part of the consideration under the recent market condition and sentiment. We consider that the CB Comparables are fair and representative samples for comparison purpose, which represent an exhaustive list based on the said criteria. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the CB Comparables.

Date of announcement	Stock Code	Company Name	Interest rate per annum	Maturity	Conversion price	Premium/(discount) of the conversion price over/(to) the closing price: Last trading day prior to/on the date of the relevant announcement	Premium/(discount) of the conversion price over/(to) the closing price: Last 5 consecutive trading days prior to/on the date of the relevant announcement
			%	*number of years*	*HK$*	*Approximately %*	*Approximately %*
26 April 2018	1678	China Creative Global Holdings Limited	0.00	3.00	0.20	4.20	4.60
8 March 2018	821	Value Convergence Holdings Limited	2.00	3.00	1.30	(44.68) *(Note)*	(45.01) *(Note)*
31 January 2018	6128	Earthasia International Holdings Limited	5.00	3.25	2.79	(22.28)	(21.50)
4 January 2018	82	V1 Group Limited	0.00	4.00	0.312	39.30 *(Note)*	47.90 *(Note)*
14 November 2017	1808	Enterprise Development Holdings Limited	0.00	2.00	1.10	(18.52)	(16.92)
18 October 2017	821	Value Convergence Holdings Limited	0.00	3.00	1.25	(19.35)	(17.00)
		Maximum (excluding outliers)	5.00	4.00	2.79	4.20	4.60
		Minimum (excluding outliers)	0.00	2.00	0.20	(22.28)	(21.50)
		Average (excluding outliers)	1.17	3.04	1.16	(13.99)	(12.71)
		The Company	0.00	5.00	20.00	(0.50)	2.25

Source: the website of the Stock Exchange (www.hkex.com.hk)

Note: The figure has been excluded from the calculations as it appears to be abnormally large as compared to the rest of the CB Comparables and is considered as outlier which may skew the overall results.

We noted from the above table that the conversion prices of the CB Comparables (i) ranged from a discount of approximately 22.28% to a premium of approximately 4.20% (the "**LTD Range**"), with an average discount of approximately 13.99% (the "**LTD Average**") for their respective closing price per share on the last trading day prior to/on the date of the relevant announcement of the CB Comparables; and (ii) ranged from a discount of approximately 21.50% to a premium of approximately 4.60% (the "**5-Days Range**"), with an average discount of approximately 12.71% (the "**5-Days Average**") for their respective average closing prices per share for the last five trading days prior to/on the date of relevant announcement of the CB Comparables.

The initial Conversion Price is HK$20.00 per Conversion Share represents (i) a discount of approximately 0.50% to the closing price per Share on the Last Trading Date, which falls within the LTD Range and is below the LTD Average; (ii) a premium of approximately 2.25% over the average closing price per Share for last five trading days immediately prior to and including the Last Trading

Date, which falls within the 5-Days Range and is above the 5-Days Average. Taking into account that the aforesaid premiums as represented by the Conversion Price to the respective closing prices per Share are within the market ranges represented by the CB Comparables, we consider that the Conversion Price is fair and reasonable and is in line with recent market practice.

With regards to the interest rate of the CB Comparables, they range from a low of 0.00% to a high of 5.00% per annum with an average interest rate of approximately 1.17%. The Convertible Bonds is non-interest bearing and falls within the range of the CB Comparables.

With regard to the terms to maturity of the CB Comparables, they range from 2 years to 4 years with an average years of 3.04. The duration of the Convertible Bonds is 5 years. However, considering that the Convertible Bond is non-interest bearing, we consider the maturity term is acceptable.

Having considered the principal factors as discussed above, we are of the view that the principal terms of the Convertible Bonds including the Conversion Price, the interest rate and the maturity of the Convertible Bond are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

5.2 ***Settlement of the Consideration***

We are advised by the Management that following the arm's length negotiation between the Company and the Vendor, both parties considered it mutually beneficial to settle the Consideration in the form of equity consideration based on various consideration factors, including (i) the Vendor, as an investment fund, takes a positive view both on the long term outlook of the healthcare industry and the future performance of the Group, which has been striving for establishment and development of a centralized and large-scale hospital management group and medical service platform; (ii) the Vendor holds certain equity investments in its portfolio companies, including certain listed companies, with principal businesses in the manufacturing of pharmaceutical products and medical equipment, and the Company believes that introducing the Vendor as a shareholder of the Company will create a potential synergistic effect with the Company's hospital business in terms of procurement of pharmaceutical products and medical equipment; and (iii) both the Company and the Vendor are positive on the growth potential of the Target Group, which will enlarge the revenue base of the Company, enhance the investment portfolio of the Company and generate investment returns for the Company and its Shareholders as a whole. The Company also considered issuing of consideration shares as alternative method to settle the Consideration, but due to the minimum Public Float requirement under the Listing Rules, the Company is not able to issue sufficient consideration Shares to settle the Consideration. By issuance of the Convertible Bonds for settlement of the Consideration of the Proposed Acquisition, it bear no interest which will not impose financing costs on the Company. In addition, the Board does not consider bank facilities as a commercially desirable financing method for the Company in the settlement of the Consideration, given that (i) the Company does not have sufficient assets for obtaining bank facilities; and (ii) bank facilities would impose additional financing costs on the Company. In light of the above and having considered that the issue of Convertible Bond is non-interest bearing and will not have an immediate dilution effect on the shareholding of the existing Shareholders. We concur the view of the Directors that the settlement of the Consideration by way of issue of the Convertible Bonds is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

6. Reasons for and benefits of the Proposed Acquisition

As stated in the Letter from the Board, the Group has been constantly seeking sound investment opportunities to manage or own hospitals and to replicate its business model of promoting synergies between the Group's management and investment expertise and the professional and management team that has been operating the hospitals by centralizing strategic planning and development at the group-level, provide sufficient support and necessary investment strategies to enhance the hospital's operations, and optimize the management and medical resources through exchange and communication between hospitals managed or owned by the Group. Furthermore, the Company expects to facilitate the business development of Jinhua Hospital with its centralized management platform as well as its expertise in hospital management and operation, and in turn generate higher return as well as broaden the revenue base of the Group.

We have researched from the public domain as to the outlook of the healthcare services sector in the PRC. According to the《"十三五"衛生與健康規劃》(13th Five-Year Plan for Healthcare*) announced by The State Council of the PRC in December 2016, the development of healthcare services sector was listed as a priority of the PRC Government. The PRC Government has encouraged the engagement of private healthcare services providers by creating a more favorable policy environment for private hospitals. Furthermore, according to the statistics published by the National Bureau of Statistics of the PRC (中國國家統計局), the per capita health expenditure, which refers to the ratio of total expenditure on health in a year to the average population of the PRC, increased from approximately RMB749 in 2006 to approximately RMB3,352 in 2016, representing a compounded annual growth rate ("**CAGR**") of approximately 14.60%. In addition, the number of inpatients in general hospitals of the PRC grew in the past eight years. Based on the statistic published by the National Bureau of Statistics of the PRC, the number of inpatients in general hospitals increased from approximately 58.72 million person in 2008 to approximately 134.02 million person in 2016, representing a CAGR of 9.60%.

Having considered that (i) the strong operating conditions and the potential growth of the Hospitals and the synergistic effect arising from the Proposed Acquisition as disclosed in the Letter from the Board; (ii) the potential growth in PRC healthcare services sector by favourable support from the PRC government; and (iii) the increase in capita health expenditure. We concur with the Director's view that the Proposed Acquisition is in the interest of the Company and the Shareholders as a whole.

7. Possible dilution effect on the shareholding interests of the public Shareholders

With reference to the shareholding table in the section headed "CHANGES IN SHAREHOLDING STRUCTURE" of the Letter from the Board, the shareholding interests of the public Shareholders would be diluted by approximately 2.74% as a result of the full conversion of the Convertible Bonds.

In this regard, taking into account (i) the reasons for and benefits of the Proposed Acquisition; (ii) the terms of the Share Purchase Agreement being fair and reasonable; (iii) the terms of the Convertible Bonds are fair and reasonable as discussed in section headed "Analysis on the principal terms of the Convertible Bond" of this letter and (iv) the Convertible Bonds bear no interest which will not impose financing cost of the Company, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders is acceptable.

8. Financial effects of the Proposed Acquisition

The unaudited pro forma financial information of the Enlarged Group is included in Appendix III to the Circular and the following significant financial effects of the Proposed Acquisition (assuming completion of the Proposed Acquisition on December 31, 2017 ("**Pro Forma Completion Date**")) to the Group as enlarged by the Proposed Acquisition, as compared to the financial position of the Group as of December 31, 2017.

Impact on assets and liabilities

On the Pro Forma Completion Date, all the identifiable assets and liabilities of the Target Group would be stated at fair value and consolidated into the consolidated financial statements of the Company. The financial effects of the Proposed Acquisition to the Group as enlarged by the Proposed Acquisition, as compared to the financial position of the Group as at December 31, 2017 are as follows:

	Prior to the Completion *(RMB'000)*	On Pro Forma Completion Date (pro forma of the Group and the Target Group) *(RMB'000)*	Change *(RMB'000)*	%
Total assets	1,965,516	2,985,446	1,019,930	51.9%
Net assets	1,562,125	1,465,018	(97,107)	(6.2)%
Total liabilities	403,391	1,520,428	1,117,037	276.9%

Impact on earnings

As set out in the 2017 Annual Report, the Group generated an audited net loss from continuing operations after tax for the year ended December 31, 2017 of approximately RMB3.7 million. As set out in the accountant's report of the Target Group in Appendix II to this circular, the Target Group recorded a net loss of RMB0.5 million for the year ended December 31, 2016 but recorded a profit of RMB25.1 million for the year ended December 31, 2017.

Following Completion, the Target Company will become a subsidiary of the Company and its financial results, including but not limited to the revenue, costs and profit of the Target Company will be consolidated into the consolidated financial statements of the Company after Completion. With reference to the historical financial performance of the Target Company, the Proposed Acquisition would have a positive impact on the future earnings of the Group subsequent to Completion in the long run.

Impact on liquidity

Since the Consideration of the Proposed Acquisition is to be satisfied by issue of Convertible Bonds, payment of the Consideration will not have a significant impact on the liquidity of the Enlarged Group. The Directors, after due and careful consideration, are of the opinion that, taking into account the financial resources available to the Enlarged Group, the Enlarged Group will have sufficient working capital for at least 12 months from the date of this circular. Having considered the above, the Directors considered the Proposed Acquisition would not result in significant liquidity issues of the Enlarged Group.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon Completion.

RECOMMENDATION

Having considered the principal factors and reasons above, we consider that (i) the terms of the Proposed Acquisition as contemplated under the Share Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to approve the Proposed Acquisition as contemplated under the Share Purchase Agreement at the EGM.

Yours faithfully,
For and on behalf of
Amasse Capital Limited
May Tsang
Director

Ms. May Tsang is a licensed person registered with the Securities and Future Commission of Hong Kong and regards as a responsible officer of Amasse Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO and has over 12 years of experience in corporate finance industry.

A. FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out or refer to in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest publish audited balance sheet together with the notes on the annual accounts for the last financial year for the Group. The financial information of the Group is disclosed in the following documents which have been published on the website of The Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the website of the Company (http://www.hcclhealthcare.com/):

- The audited consolidated financial statements of the Group for the year ended December 31, 2017 is disclosed in the 2017 annual report of the Company published on April 24, 2018 from pages 66 to 158. Please see also a link to the 2017 annual report of the Company:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0424/LTN20180424031.pdf

- The audited consolidated financial statements of the Group for the year ended December 31, 2016 is disclosed in the 2016 annual report of the Company published on April 24, 2017 from pages 63 to 140. Please see also a link to the 2016 annual report of the Company:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0424/LTN20170424449.pdf

- The audited consolidated financial statements of the Group as at December 31, 2014 and 2015 and for the period from February 21, 2014 (date of incorporation of the Company) to December 31, 2014 and the year ended December 31, 2015 is disclosed in the prospectus of the Company published on February 28, 2017 from pages IA-4 to IA-82. Please see also a link to the prospectus of the Company:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0921/LTN20170921291.pdf

B. STATEMENT OF INDEBTEDNESS

At the close of business on April 30, 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following borrowings:

	RMB'000
Bank borrowing, secured but unguaranteed	231,401
Bank borrowing, unsecured but guaranteed	10,000
Bank borrowing, secured and guaranteed	30,000
Total borrowings	271,401

Bank borrowings were secured by equity interests in certain subsidiaries of the Company and certain receivables.

As at April 30, 2018, the Enlarged Group has pledged certain paid-up equity interests and provided a joint liability guarantee to a bank, regarding the same loans granted to Jinhua Hospital to the maximum amount of RMB412.5 million and RMB550.0 million, respectively.

As at April 30, 2018, the Enlarged Group has pledged certain equity interests to a bank to secure a bank borrowing of the Company in the amount of approximately RMB231.4 million.

As at April 30, 2018, the Enlarged Group has provided joint liability guarantee as well as pledged certain receivables to secure a loan granted to Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* (建德中醫院有限公司) in the amount of RMB30.0 million.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, financial leases or hire purchase commitments, liabilities under acceptances or acceptance credits or guarantees or other material contingent liabilities as at April 30, 2018.

C. FINANCIAL AND TRADING PROSPECT OF THE GROUP AS ENLARGED BY THE ACQUISITION

As mentioned in the Company's 2017 annual report issued by the Company on April 24, 2018 for the year ended December 31, 2017, the healthcare industry in China is expected to see rapid growth, driven by factors including aging of population, improvement of residents' income and health awareness, improvement of security system and the medical network as well as government investments. The Group will continue to actively seek opportunities to further penetrate the existing geographic markets by engaging in strategic acquisitions of Class II or Class III hospitals or hospitals with equivalent scale that possess competitive advantages and are located in regions in China with a sizeable population and well-developed economic activities.

The Proposed Acquisition would allow the Group to benefit from the effect of synergies and the resultant economies of scale, including the shared medical resources and intra-group cooperation. As mentioned in the section "I. Reasons for and benefits of the Acquisition and the Future Prospect of the Target Group" in the "Letter from the Board", the Proposed Acquisition represents a valuable opportunity for the Company to combine the strength of the Target Company and the Group. Upon Completion, the Target Company will become a subsidiary of the Company and the Proposed Acquisition will expand the hospital network of the Group which enhance the core value of the Company. The financial results of the Target Company will be consolidated in the consolidated financial statements of the Company. It is expected that the revenue of the Group as enlarged by the Proposed Acquisition will be mainly derived from the general hospital services segment and the hospital management services segment.

Based on the above, the Directors consider that the Target Company will generate a stable and recurring income stream to the Group, enable the Group to strengthen its asset base and provide growth potential to the Group. The Directors are optimistic about the prospects of the full spectrum healthcare services offered by the Group as enlarged by the Target Group. The Target Group will continue to seek opportunities to broaden the hospital network to achieve our long-term development goals and maximize shareholder value.

D. WORKING CAPITAL STATEMENT

Taking into account of the cash flow impact upon the Completion and the financial resources available to the Enlarged Group (including the Group's internally generated funds and the effect of the Proposed Acquisition), the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of publication of this circular.

E. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2017, being the date of which the latest published audited consolidated financial statements of the Group were made up.

F. ACQUISITIONS AFTER THE DATE OF THE LATEST PUBLISHED AUDITED ACCOUNTS

Since December 31, 2017, being the date to which the latest audited accounts of the Company were made up, the Company has completed or proposed the following acquisition whose profits or assets make or will make a material contribution to the figures in the next published audited consolidated financial statements of the Group.

On October 27, 2017, New Pride Holdings Limited (捷穎控股有限公司), the Company's wholly-owned subsidiary, entered into a sale purchase agreement in relation to the DJ Acquisition to acquire the entire share capital in Jiande Hexu Enterprise Management Co., Ltd.* (建德和煦企業管理有限公司) (the "**DJ Target**") at a total cash consideration of RMB483,000,000, which was funded by internal resources of the Group and external loan facilities. DJ Target indirectly owns 70% share capital in Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* (建德中醫院有限公司) ("**DJ Hospital**"), Zhejiang Dajia Medicines Co., Ltd.* (浙江大佳醫藥有限公司) ("**DJ Medicines**") and Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd.* (建德大家中醫藥科技有限公司) ("**DJ Pharmaceutical Technology**"). DJ Hospital is a for-profit general hospital in Zhejiang that features the use of traditional Chinese medicine. DJ Medicines is principally engaged in the wholesale of pharmaceutical products. DJ Pharmaceutical Technology owns certain land use rights. For details, please refer to the announcement of the Company dated July 4, 2017, August 10, 2017 and October 27, 2017 and the circular of the Company dated December 15, 2017. The DJ Acquisition was completed in January 2018.

The Company has entered into an equity transfer agreement on February 8, 2018 with, amongst others, the vendors in relation to the acquisition of the entire equity interest in Cixi Hongai Medical Management Co., Ltd.* (慈溪弘愛醫療管理有限公司) ("**Cixi**") at a total cash consideration or RMB336 million (the "**Cixi Acquisition**"). Cixi directly owns 70% equity interest in a hospital management company (the "**Cixi Management**") that provides management and consultancy services to Cixi Union Hospital (慈溪協和醫院) ("**Cixi Hospital**") for a management fee. Cixi Hospital, a Class IIB Hospital located in Zhejiang province, is in close proximity to the hospitals that the Group manages or operates. Cixi Hospital demonstrated stable business development and solid historical growth, and it is constructing a new building to meet the increasing demand for medical services in the region. Together with the management and consultancy services that Cixi Management provides, the Board believes Cixi Hospital will continue to experience expansion growth in the future. For details, please refer to the announcements of the Company dated November 2, 2017, February 8, 2018 and March 7, 2018. The Cixi Acquisition was completed in March, 2018.

The aggregate of the remuneration payable to and benefits in kind received by the Directors will not be varied in consequence of the DJ Acquisition and Cixi Acquisition.

Save as disclosed above, since December 31, 2017 (the date which the latest published audited consolidated financial statements of the Group have been made up), no member of the Group has acquired or agreed to acquired or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditor's report or next published audited consolidated financial statements of the Group.

The following is the text of a report set out on pages II-1 to II-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HOSPITAL CORPORATION OF CHINA LIMITED

Introduction

We report on the historical financial information of Oriental Ally Holdings Limited (the "Target Company") and its subsidiaries (together, the "Target Group") set out in Sections I to IV, which comprises the consolidated balance sheets and the balance sheets of the Target Company as at December 31, 2015, 2016 and 2017, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out in Sections I to IV forms an integral part of this report, which has been prepared for inclusion in the circular of Hospital Corporation of China Limited (the "Company") dated June 24, 2018 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Group for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements of the Target Group for the Track Record Period. The directors of the Target Company are responsible for the preparation and fair presentation of the previously issued financial statements of the Target Group in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountant's Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company and the consolidated financial position of the Target Group as at December 31, 2015, 2016 and 2017 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
June 24, 2018

ORIENTAL ALLY HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2015, 2016 AND 2017

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the IAASB.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand yuan (RMB'000) except when otherwise indicated.

CONSOLIDATED BALANCE SHEETS

		As at December 31,		
	Note	**2015**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Intangible assets	5	—	599,617	599,603
Deferred income tax assets	8	—	1,299	—
Total non-current assets		—	600,916	599,603
Current assets				
Amounts due from related parties	6	—	221,986	99,536
Other receivables and prepayments		—	—	79
Cash and cash equivalents	9	—	9,569	4,213
Total current assets		—	231,555	103,828
Total assets		—	832,471	703,431

The notes on pages 9 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

		As at December 31,		
	Note	**2015**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*
EQUITY				
Equity attributable to owners of the Target Company				
Share capital	10	—	—	—
Reserves	11	—	598,314	598,314
(Accumulated losses)/retained earnings		—	(537)	18,287
		—	597,777	616,601
Non-controlling interests		—	186	6,510
Total equity		—	597,963	623,111
LIABILITIES				
Current liabilities				
Other payables	12	—	223,244	69,109
Current income tax liabilities		—	—	7,132
Amounts due to shareholder	6	—	11,264	4,079
Total current liabilities		—	234,508	80,320
Total liabilities		—	234,508	80,320
Total equity and liabilities		—	832,471	703,431

The notes on pages 9 to 56 are an integral part of these consolidated financial statements.

The financial statements on pages 3 to 8 were approved by the board of directors on June 24, 2018 and were signed on its behalf.

Zhao John Huan

Lin Sheng

BALANCE SHEETS
AS AT DECEMBER 31, 2015, 2016 AND 2017

BALANCE SHEETS OF THE TARGET COMPANY

		As at December 31,		
	Note	**2015**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Investments in subsidiaries	19	—	598,314	598,314
Total non-current assets		—	598,314	598,314
Current assets				
Amounts due from a subsidiary		—	11,264	4,076
Cash and cash equivalents		—	—	2
Total current assets		—	11,264	4,078
Total assets		—	609,578	602,392
EQUITY				
Equity attributable to owner				
Share capital	10	—	—	—
Reserves	11	—	598,314	598,314
Accumulated losses		—	—	(1)
Total equity		—	598,314	598,313
LIABILITIES				
Current liabilities				
Amounts due to shareholder	6	—	11,264	4,079
Total current liabilities		—	11,264	4,079
Total liabilities		—	11,264	4,079
Total equity and liabilities		—	609,578	602,392

The financial statements on pages 3 to 8 were approved by the board of directors on June 24, 2018 and were signed on its behalf.

Zhao John Huan

Lin Sheng

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31,		
	Note	**2015**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	13	—	—	37,694
Cost of revenue	14	—	(787)	(1,443)
Gross (loss)/profit		—	(787)	36,251
Administrative expenses	14	—	(2,601)	(3,032)
Operating (loss)/profit		—	(3,388)	33,219
Finance income	16	—	1,588	6,415
Finance expenses	16	—	—	(6,055)
Finance income — net		—	1,588	360
(Loss)/profit before income tax		—	(1,800)	33,579
Income tax expense	17	—	1,299	(8,431)
(Loss)/profit for the year		—	(501)	25,148
Other comprehensive income		—	—	—
Total comprehensive (loss)/income for the year		—	(501)	25,148
Total comprehensive (loss)/income attributable to:				
Owners of the Target Company		—	(537)	18,824
Non-controlling interests		—	36	6,324
		—	(501)	25,148

The notes on pages 9 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company					
	Share capital	Reserves	(Accumulated losses)/Retained earnings	Sub-total	Attributable to non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at January 1, 2015	—	—	—	—	—	—
Comprehensive income - Profit for the year	—	—	—	—	—	—
Balance at December 31, 2015	—	—	—	—	—	—
Balance at January 1, 2016	—	—	—	—	—	—
Comprehensive income - Loss for the year	—	—	(537)	(537)	36	(501)
Capital contribution by shareholder (Note 11)	—	598,314	—	598,314	—	598,314
Non-controlling interests on acquisition of a subsidiary	—	—	—	—	150	150
Balance at December 31, 2016	—	598,314	(537)	597,777	186	597,963
Balance at January 1, 2017	—	598,314	(537)	597,777	186	597,963
Comprehensive income - Profit for the year	—	—	18,824	18,824	6,324	25,148
Balance at December 31, 2017	—	598,314	18,287	616,601	6,510	623,111

The notes on pages 9 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31,		
	Note	**2015**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Cash used in operations	20	—	(3,315)	(5,937)
Bank interests received		—	1	215
Net cash used in operating activities		—	(3,314)	(5,722)
Cash flows from investing activities				
Net cash used in business combinations	21	—	(600,000)	—
Loans to related parties		—	—	(170,000)
Interests received from loans to related parties		—	—	6,055
Repayments of loans by related parties		—	1,787	332,406
Repayments of loans by a third party		—	7,120	—
Purchase of intangible assets		—	(69)	—
Net cash (used in)/generated from investing activities		—	(591,162)	168,461
Cash flows from financing activities				
Proceeds from borrowings	20	—	—	170,000
Repayment of borrowings	20	—	—	(170,000)
Interest paid		—	—	(6,055)
Borrowings from shareholder	20	—	11,264	—
Repayments of borrowings from a third party		—	(7,120)	(155,000)
Repayments of borrowings from shareholder		—	—	(7,185)
Capital contribution by shareholder		—	598,314	—
Net cash generated from/(used in) financing activities		—	602,458	(168,240)
Net increase/(decrease) in cash		—	7,982	(5,501)
Cash and cash equivalents at beginning of year		—	—	9,569
Effects of exchange rate changes on cash and cash equivalents		—	1,587	145
Cash and cash equivalents at end of year	9	—	9,569	4,213

The notes on pages 9 to 56 are an integral part of these consolidated financial statements.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, ACQUISITION AND BASIS OF PRESENTATION

1.1 General information

Oriental Ally Holdings Limited ("Oriental Ally" or the "Target Company") was incorporated in the British Virgin Island on May 2, 2014 as a BVI business company. The address of Oriental Ally's registered office is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

During the years ended December 31, 2015, 2016 and 2017, Oriental Ally is an investment holding company. Oriental Ally, together with its subsidiaries listed in Note 1.2 (collectively referred to as the "Target Group"), are principally engaged in provision of management and consultation services to a not-for-profit hospital, Zhejiang Jinhua Guangfu Oncological Hospital ("Jinhua Hospital") in the People's Republic of China (the "PRC").

The Target Company is controlled by Hony Capital Fund VIII, L.P. ("Hony Capital Fund VIII").

1.2 Acquisition of Guangsha Medical

On October 29, 2014, Zhejiang Guangsha Medical Technology Co., Ltd ("Guangsha Medical") was established by Guangsha Holding Group Ltd., ("Guangsha Group") with a registered capital of RMB 80,000,000 and provided consultancy and management services. On March 24, 2016, Guangsha Medical received a further capital injection of RMB 8,880,000 from its controlling shareholder and the registered capital was RMB 88,880,000 since then.

On April 18, 2016 (date of acquisition), Impeccable Success Limited ("Impeccable Success"), a wholly-owned subsidiary of Oriental Ally, acquired the 75% equity interests in Guangsha Medical at a consideration of RMB 600,000,000. Upon completion of the acquisition, Guangsha Medical has been ultimately controlled by the Target Company.

As at the date of this report, the Target Company had direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation/ establishment	Issued and paid-in capital	Attributable equity interest of the Target Group December 31, 2015	2016	2017	Principal activities/ place of operation
Directly owned:						
Impeccable Success Limited (“成臻有限公司”) (a)	Hong Kong, on June 9, 2014	US Dollars (“USD”) 1	N/A	100%	100%	Investment holding, Hong Kong
Indirectly owned:						
Zhejiang Guangsha Medical Technology Co., Ltd (“浙江廣廈醫療科技有限公司”)*(b)	The PRC, on October 29, 2014	88,880,000	N/A	75%	75%	Hospital management, the PRC

Notes:

* English translation is for identification purpose only. The English names of companies incorporated in the PRC represent the best efforts by management of the Target Group in translation their Chinese names as they do not have official English names.

(a) No statutory financial statements have been prepared for Impeccable Success for the financial years ended December 31, 2015, 2016 and 2017.

(b) No statutory financial statements have been prepared for Guangsha Medical for the financial year ended December 31, 2015. The statutory auditor of Guangsha Medical for the financial year ended December 31, 2016 and 2017 is Zhejiang Zhongjian Certified Public Accounts (General Partnership) (“浙江中健會計師事務所(普通合夥)”).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in confirming with the accounting policies of Hospital Corporation of China Limited (“HCCL”) and in accordance with the International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standard Board (“IASB”) are set out below. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

All relevant standards, amendments and interpretations to the existing standards that are effective during the Track Record Period have been adopted by the Target Group consistently throughout the Track Record Period.

The Historical Financial Information has been also prepared in accordance with the applicable requirements of the Hong Kong Companies Ordinance (Cap.622).

2.1.1 **Changes in accounting policy and disclosures**

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2017 reporting periods and have not been early adopted by the Target Group. The Target Group's assessment of the impact of these new standards and interpretations is set out below.

(i) *IFRS 9 Financial instruments*

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Target Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

- No debt instruments were classified as available-for-sale (AFS) financial assets.

- Debt instruments currently classified as measured at amortised cost met the conditions for classification at amortised cost under IFRS 9.

There will be no impact on the Target Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Target Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Target Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. However, at this stage the Target Group does not expect to identify any new hedge relationships. Currently, the Target Group has no existing hedge relationships. Accordingly, the Target Group does not expect a significant impact on the accounting for hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCl, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Target Group does not expect a significant impact on the accounting for impairment provisions based on ECL.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Target Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Target Group

Must be applied for financial years commencing on or after January 1, 2018. The Target Group will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

(ii) *IFRS 15 Revenue from contracts with customers*

Nature of change

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Target Group's financial statements and has identified the following areas that are likely to be affected:

- Revenue from service - for the hospital management service, application of IFRS 15 may not result in identification of additional performance obligations, while IFRS 15 includes more guidance on estimation and accounting for variable consideration. However, the management does not expect significant impact because the service fees are settled on annual base.

Date of adoption by the Target Group

Mandatory for financial years commencing on or after January 1, 2018. The Target Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of January 1, 2018 and that comparatives will not be restated.

(iii) *IFRS 16 Leases*

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Target Group's operating leases. As at the reporting date, the Target Group has no non-cancellable operating lease commitment.

Mandatory application date/ Date of adoption by the Target Group

Mandatory for financial years commencing on or after January 1, 2019. At this stage, the Target Group does not intend to adopt the standard before its effective date. The Target Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Target Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Target Group's operation. According to the assessment made by the directors of the Target Company, the directors of the Target Company do not expect the application of the new and revised IFRSs in issue but not yet effective will have significant impact on the financial performance and positions of the Target Group.

2.2 **Subsidiaries**

2.2.1 **Consolidation**

A subsidiary is an entity (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

(a) *Business combination*

The Target Group applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Target Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Target Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.4). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between Target Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Target Group's accounting policies.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 **Separate financial statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 **Foreign currency translation**

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Since the majority of the operations of the Target Group are located in the PRC, the consolidated financial statements are presented in RMB, which is the Target Company's functional and the Target Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings are presented in the statement of profit or loss within 'finance income or expenses'. All other foreign exchange gains and losses are presented in statement of profit or loss within 'other gains/(losses) — net'.

2.4 **Intangible assets**

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the Target Group of CGUs containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives of 5 years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

2.5 **Impairment of non-financial assets**

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 **Financial assets**

2.6.1 **Classification**

The Target Group classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Target Group's loans and receivables comprise 'amounts due from related parties', 'other receivables and prepayments' and 'cash and cash equivalents' in the balance sheet (Notes 2.9 and 2.10).

2.6.2 **Recognition and measurement**

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.7 **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Target Company or the counterparty.

2.8 **Impairment of financial assets**

(a) *Assets carried at amortised cost*

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Target Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2.9 **Trade and other receivables**

Trade receivables are amounts due from hospitals for management services provided in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.10 **Cash and cash equivalents**

In the consolidated statement of cash flows and consolidated balance sheet, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.11 **Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 **Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.14 **Borrowing costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.15 **Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Target Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Target Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Target Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 **Employee benefits**

Pension obligations

The Target Group companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payables to the existing and future retired employees under these plans and the Target Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Target Group.

2.17 **Revenue recognition**

The Target Group's revenue is derived from rendering hospital management services to a hospital.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the services rendered in the ordinary course of the Target Group's activities, net of discounts and sales related taxes. The Target Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for the Target Group's activities, as described below.

Hospital Management Services

Hospital management services fee is recognised when services are rendered and when it is probable that the economic rom the benefits from service rendered will flow to the Target Group and such benefit could be reliably measured.

2.18 **Interest income**

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Target Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.19 **Dividend distribution**

Dividend distribution to the Target Company's shareholders is recognised as a liability in the Target Group's financial statements in the period in which the dividends are approved by the Target Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 **Financial risk factors**

The Target Group's activities expose it to a variety of financial risks: market risk including foreign exchange risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. The

Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. Risk management is carried out by the senior management of the Target Group and approved by the executive directors.

(a) *Market Risk*

(i) *Foreign exchange risk*

Foreign currency risk is the risk that the value of a financial instrument fluctuates because of the changes in foreign exchange rates.

The Target Group mainly operates in the PRC with most of the transactions settled in RMB. Foreign exchange rate risk arises when recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

Included in cash and cash equivalents in the Target Group's balance sheet as at December 31, 2015, 2016 and 2017, the amounts denominated in currencies other than the functional currency of the entity were as follows:

	As at December 31		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents			
- USD	—	8,930	1,599

At December 31, 2015, 2016 and 2017, if RMB had weakened/strengthened by 5% against USD with all other variables held constant, post-tax loss for the period would have been RMB nil, 447,000 and 80,000 lower/higher.

The Target Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

(ii) *Cash flow and fair value interest rate risk*

The Target Group's income and operating cash flows are substantially independent of changes in market interest rates as the Target Group has no significant interest-bearing assets. As of December 31, 2015, 2016 and 2017, the Target Group has no borrowings. The directors of the Target Company believe that there is no material interest rate risk related to the Target Group.

(b) *Credit Risk*

Credit risk mainly arises from short-term deposits, bank balance, amounts due from related parties and trade and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets.

The credit risk of short-term deposits and bank balances is limited because the counterparties are state-owned or reputable commercial banks which are high-credit-quality financial institutions in the PRC.

The Target Group mainly engages in provision of management and consulting services to a not-for-profit hospital and its only single customer is Jinhua Hospital. Management makes periodic collective assessments as well as individual assessment on the recoverability of trade and other receivables, including management fee. The directors of the Target Company believe that there is no material credit risk inherent in the Target Group's outstanding balance of trade and other receivables.

Management of the Target Group makes individual assessment on the recoverability of amounts due from related parties. The directors of the Target Group believe that there is no material credit risk inherent in the Target Group's outstanding balance of amounts due from related parties.

(c) *Liquidity Risk*

The Target Group aims to maintain sufficient cash and cash equivalents to meet operating capital requirements.

The table below analyses the Target Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**After 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2015					
Other payables (excluding accrued employee benefits and other taxes)	—	—	—	—	—
Amounts due to a related party	—	—	—	—	—
	—	—	—	—	—
At December 31, 2016					
Other payables (excluding accrued employee benefits and other taxes)	223,244	—	—	—	223,244
Amounts due to a related party	11,264	—	—	—	11,264
	234,508	—	—	—	234,508
At December 31, 2017					
Other payables (excluding accrued employee benefits and other taxes)	66,373	—	—	—	66,373
Amounts due to related parties	4,079	—	—	—	4,079
	70,452	—	—	—	70,452

3.2 **Capital Risk Management**

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Target Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt.

The Target Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Target Group as at December 31, 2015, 2016 and 2017 was as follows:

	As at December 31,		
	2015	**2016**	**2017**
The liability-to-asset ratio	—	28%	11%

There were no changes in the Target Group's approach to capital management during the years ended December 31, 2015, 2016 and 2017.

Neither the Target Company nor any of its subsidiaries are subject to externally imposed capital requirements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) *Estimated impairment of goodwill*

The Target Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.4. The recoverable amounts of cash-generating units have been determined based on fair value less cost of disposal calculations. These calculations require the use of estimates. When applying valuation technique, the Target Group relies on a number of factors and judgements, including among others, historical results, business plans, forecasts and market data.

Changes in the conditions for these estimates and assumptions can significantly affect the assessed result of goodwill impairment test.

For the sensitivity analysis and other details, please refer to Note 5.

No impairment was charged during the year ended December 31, 2016 and 2017.

(b) *Purchase price allocation*

The application of business combination accounting requires the use of significant estimates and assumptions. The purchase method of accounting for business combinations requires the Target Group to estimate the fair value of identifiable assets acquired and liabilities assumed. This exercise requires the use of management's assumptions and judgement, which would not reflect unanticipated events and circumstances that may occur.

An asset is identifiable if it either:

(a) is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Allocation of the purchase price affects the results of the Target Group as finite lived intangible assets are amortised, whereas indefinite lived intangible assets, including goodwill, are not amortised and could result in differing amortisation charges based on the allocation to goodwill and finite lived intangible assets.

Based on a valuation report issued by an independent valuer, no identifiable asset was recognized through the purchase price allocation in 2016.

(c) *Consolidation*

Not-for-profit hospitals founded by Guangsha Medical

Jinhua Hospital, Dongyang Guangfu Hospital and Yongkang Hospital (collectively refer to as the "Not-for-profit Hospitals"), three not-for-profit hospitals, were obtained from Guangsha Group, a subsidiary acquired by Oriental Ally in April 2016. The founders of Not-for-profit Hospitals are not entitled to the dividend of the hospital in accordance with relevant PRC rules and regulation. Guangsha Medical has entered into agreements with Jinhua Hospital in which the Target Group obtains contractual rights to provide management services of Jinhua Hospital for certain periods and is entitled to receive performance-based management fees during the periods.

The Target Group has exercised significant judgments in determining whether the Target Group has control over the Not-for-profit Hospitals. In exercising such judgment, the Target Group considers the purpose and design of the Not-for-profit Hospitals, what the relevant activities are and how decisions about those activities are made, whether the rights of the Target Group gives the current ability to direct the relevant activities, whether rights exercisable by other parties as internal governance body members are substantive, whether the Target Group is exposed, or has rights, to variable returns from its involvement with the Not-for-profit Hospitals, and whether the Target Group has the ability to use its power over the Not-for-profit Hospitals to affect the amount of the Target Group's returns.

After assessment, the management has concluded that the Target Group does not have the unilateral decision making power over internal governance body to direct the relevant activities of the Not-for-profit Hospitals, so the Target Group does not control and thus does not consolidate the Not-for-profit Hospitals. Instead, agreements are considered as management contracts to generate management service income.

5 INTANGIBLE ASSETS

	Goodwill	Computer softwares	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended December 31, 2015			
Opening net amount	—	—	—
Additions	—	—	—
Amortisation	—	—	—
Closing net amount	—	—	—
At December 31, 2015			
Cost	—	—	—
Accumulated amortisation	—	—	—
Net amount	—	—	—
Year ended December 31, 2016			
Opening net amount	—	—	—
Additions	—	69	69
Business combination (Note 21)	599,550	—	599,550
Amortisation	—	(2)	(2)

	Goodwill	Computer softwares	Total
	RMB'000	*RMB'000*	*RMB'000*
Closing net amount	599,550	67	599,617
At December 31, 2016			
Cost	599,550	69	599,619
Accumulated amortisation	—	(2)	(2)
Net amount	599,550	67	599,617
Year ended December 31, 2017			
Opening net amount	599,550	67	599,617
Amortisation	—	(14)	(14)
Closing net amount	599,550	53	599,603
At December 31, 2017			
Cost	599,550	69	599,619
Accumulated amortisation	—	(16)	(16)
Net amount	599,550	53	599,603

(a) Impairment tests for goodwill

Goodwill of RMB 599,550,000 was resulted from acquisitions of Guangsha Medical in 2016 (note 21). Guangsha Medical is principally engaged in the provision of hospital management services in the PRC.

Management reviews the business performance of each operating segment. Goodwill is monitored by the management at the operating segment level.

The following is a summary of goodwill allocation for the segement.

	Opening	Addition	Impariment	Closing
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2016				
Hospital management service segment	—	599,550	—	599,550
Year ended December 31, 2017				
Hospital management service segment	599,550	—	—	599,550

The recoverable amount of an operating segment is determined based on fair value less costs of disposal calculations.

Hospital management service segment

For hospital management service segment with significant amount of goodwill, the key assumptions, long-term growth rate and discount rate used in the fair value less costs of disposal calculations as at December 31, 2016 and 2017, are as follows.

	Year ended December 31, 2016	**Year ended December 31, 2017**
Revenue (% compound growth rate)	23.98%	19.42%
Costs and operating expenses (% of revenue)	4.91%	5.18%
Total expansion costs (RMB'000)	9,102	9,189
Long-term growth rate	3.00%	3.00%
Post-tax discount rate	13.50%	13.50%
Recoverable amount (RMB'000)	814,547	857,707

These assumptions have been used for the analysis of hospital management service segment.

Average revenue compound growth rate is for the eight-year forecast period. It is based on past performance and management's expectations of market development.

The percentage of costs and operating expenses of revenue is the average percentages over the eight-year forecast period. It is based on the current margin levels, with adjustments made to reflect the expected future price rises in labour, which management does not expect to be able to pass on to customers through price increases.

The expansion costs over eight-year period is the expected cash costs used in hiring more healthcare related personnel for future operations. This is based on the expectation of management as at each balance sheet day in relation to the potential contracts being negotiated.

The discount rates used are post-tax and reflect specific risks relating to hospital management service segment.

The table below sets forth each key assumption for the eight-year forecast period as of each year end (estimates based on the operations for the periods indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Year ended December 31, 2016		Year ended December 31, 2017	
	Key assumption	**Breakeven point**	**Key assumption**	**Breakeven point**
Percentage of the compound growth rate of revenue	23.98%	23.68%	19.42%	18.85%
Percentage of costs and operating expenses over revenue	4.91%	6.15%	5.18%	7.76%
Percentage of the post-tax discount rate	13.50%	13.67%	13.50%	13.90%

No impairment was charged during the years ended December 31, 2016 and 2017, respectively.

6 BALANCES WITH RELATED PARTIES

As at December 31, 2015, 2016 and 2017, the balances with related parties are unsecured and receivable/repayable on demand and are denominated in RMB.

	As at December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from related parties			
Current			
- Trade in nature			
Jinhua Hospital	—	—	39,956
- Others (not trade in nature)			
Jinhua Hospital (a)	—	102,957	22,224
Dongyang Guangfu Hospital (a)	—	119,029	37,356
	—	221,986	99,536

(a) During the year of 2017, Guangsha Medical had a bank borrowing of RMB 170,000,000 with an interest rate of 6%, and then lent unsecured loan balances of RMB 141,000,000 and RMB 29,000,000 to Jinhua Hospital and Dongyang Guangfu Hospital, respectively, with an interest rate of 6%.

As of December 31, 2017, Jinhua Hospital and Dongyang Guangfu Hospital had paid off the unsecured loans.

As at December 31, 2015, 2016 and 2017, none of relevant receivables was individually determined to be impaired.

	As at December 31,		
	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to shareholder			
-Others (not trade in nature)	—	11,264	4,079

Their carrying amounts as at December 31, 2015, 2016 and 2017 approximate their fair values.

7 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31,		
	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
Loans and receivables			
Amounts due from related parties (Note 6)	—	221,986	99,536
Other receivables and prepayments	—	—	79
Cash and cash equivalents (Note 9)	—	9,569	4,213
	—	231,555	103,828
Financial liabilities at amortised cost			
Other payables (excluding tax payable other than corporate income tax)	—	223,244	66,373
Amounts due to a related party	—	11,264	4,079
	—	234,508	70,452

8 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances shown in the statements of financial position were, after appropriate offsetting, as follows:

	As at December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Deferred income tax assets:			
- Deferred income tax assets to be recovered after more than 12 months	—	—	—
- Deferred income tax assets to be recovered within 12 months	—	1,299	—
	—	1,299	—

The movement in deferred income tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, was as follows:

Deferred income tax assets

	Tax losses
	RMB'000
Balance at January 1, 2015	—
Credited to profit or loss	—
Balance at December 31, 2015	—
Balance at January 1, 2016	—
Credited to profit or loss	1,299
Balance at December 31, 2016	1,299
Balance at January 1, 2017	1,299
Charged to profit or loss	(1,299)
Balance at December 31, 2017	—

There was no unrecognised deferred income tax asset in respect of tax loss that can be carried forward against future taxable income for the year ended December 31, 2015, 2016 and 2017.

9 CASH AND CASH EQUIVALENTS

	As at December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Cash at banks	—	9,569	4,213

The Target Group earns interest at floating rates based on daily bank deposit rates.

The Target Group's cash at banks are denominated in the following currencies:

	As at December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
USD	—	8,930	1,599
RMB	—	639	2,614
	—	9,569	4,213

10 SHARE CAPITAL

	Number of shares	**Nominal value of shares**
		USD
Authorised		
Ordinary shares upon incorporation (a)	50,000	50,000

	Number of ordinary shares	**Nominal value of ordinary shares**	**Equivalent nominal value of ordinary shares**
		USD	*RMB*
Issued and Paid			
As at December 31, 2015, 2016 and 2017	1	1	6.52

(a) The Target Company was incorporated in the British Virgin Islands on May 2, 2014 with an authorised share capital of USD 50,000 divided into 50,000 ordinary shares of a par value of USD 1.00 each. On May 16, 2014, 1 ordinary share of the Target Company was transferred by the initial subscriber to Hony Capital Fund VIII at a consideration of USD 1.00.

11 RESERVES

	Capital reserve
	RMB'000
At January 1, 2015	—
At December 31, 2015	—
At January 1, 2016	—
Capital contribution by shareholder (a)	598,314
At December 31, 2016	598,314
At January 1, 2017	598,314
At December 31, 2017	598,314

(a) *Capital contribution by shareholder*

On April 18, 2016 (date of acquisition), USD 92, 126,000 was paid by Hony Capital Fund VIII as a capital contribution to the Target Company.

12 OTHER PAYABLES

	As at December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to Zhejiang Guangsha Holdings Group Ltd.	—	219,173	64,173
Tax payable other than corporate income tax	—	—	2,736
Accrued professional service fee in respect of acquisition	—	—	2,180
Payables to professional service fee in respect of acquisition	—	4,000	—
Others	—	71	20
	—	223,244	69,109

The carrying amounts of other payables are denominated in RMB. The carrying amounts approximate their fair values due to their short-term maturities.

13 REVENUE

	Year ended December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Management services fee	—	—	37,694

On June 30, 2017, Guangsha Medical and Jinhua Hospital entered into a 50-year hospital management agreement, covering the period from January 1, 2017 to December 31, 2066. Pursuant to the Jinhua Hospital Management Agreement, Guangsha Medical agreed to provide corporate consultancy and management services to Jinhua Hospital, and Jinhua Hospital agreed to pay Guangsha Medical management service fees.

The detailed service content and pricing are concluded and effective in separate hospital management agreement ("HMA") which will be signed every three years.

On June 30, 2017, Guangsha Medical signed the HMA for the year of 2017, 2018 and 2019 with Jinhua Hospital and derives management fee based on pre-set formulas set out in the HMA.

All revenues are generated in the PRC. For the hospital management services, there is only one single customer, Jinhua Hospital, contributed to the Target Group's revenue for the year ended 2017.

14 EXPENSES BY NATURE

Expenses by nature comprised cost of sales and administrative expenses as follows:

	Year ended December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Professional service fee in respect of acquisitions	—	2,233	2,467
Employee benefit expenses	—	787	1,171
Utilities and office expenses	—	7	286
Other transaction taxes	—	—	272
Consultation fee	—	352	126
Amortisation	—	2	14
Other expense	—	7	139
	—	3,388	4,475

15 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonuses	—	727	1,066
Others	—	60	105
	—	787	1,171

Employee benefit expenses were charged in the following categories in the consolidated statements of comprehensive income:

	Year ended December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Cost of revenue	—	787	1,171

The employees of the Target Group in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Target Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of the Target Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

(a) *Five highest paid individuals*

The five individuals whose remunerations were the highest in the Target Group for each of the years ended December 31, 2015, 2016 and 2017 are set out below:

	Year ended December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonuses	—	395	579
Others	—	47	84
	—	442	663

The number of highest paid non-director individuals whose remunerations for each of the Track Record Period fell within the following band is as follows:

	Number of individuals Year ended December 31,		
	2015	**2016**	**2017**
Nil to HKD1,000,000	—	5	5

16 FINANCE INCOME

	Year ended December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
Interest income on short-term bank deposit	—	1	215
Interest income on loans to related parties (a)	—	—	6,055
Exchange gains on cash and cash equivalents	—	1,587	145
	—	1,588	6,415
Finance expense			
Interest expense on bank borrowing (a)	—	—	(6,055)
	—	—	(6,055)
Finance income - net	—	1,588	360

(a) Key terms related to interest income on loans to related parties and interest expense on bank borrowing were disclosed in Note 6(a).

17 INCOME TAX EXPENSE

The subsidiary in mainland China is subject to PRC corporate income tax at the rate of 25% for the years ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Current income taxation:			
- PRC corporate income tax	—	—	7,132
- Deferred income tax (credit)/charge (Note 8)	—	(1,299)	1,299
	—	(1,299)	8,431

The taxation on the Target Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the PRC, the principal place of the Target Group's operations, as follows:

	Year ended December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/Profit before income tax:	—	(1,800)	33,579
Calculated at a taxation rate of 25%	—	(450)	8,395
Loss not subject to income tax	—	162	36
Tax effect of tax losses recognised	—	(1,011)	—
Income tax expense	—	(1,299)	8,431

(a) *The British Virgin Islands Income Tax*

The Target Company is incorporated in the British Virgin Islands ("BVI") as a BVI Business Company that pursuant to the BVI Business Company Act, 2014 and accordingly, is exempted from tax.

(b) *Hong Kong Profits Tax*

Hong Kong profits tax rate is 16.5% for the years ended December 31, 2015, 2016 and 2017.

(c) *PRC Corporate Income Tax ("CIT")*

The income tax rate of Guangsha Medical was 25% for the years ended December 31, 2015, 2016 and 2017.

(d) *Withholding Tax*

The withholding tax rate of Impeccable Success was 10% pursuant to PRC Enterprise Income Tax based on the remittance of dividends from Guangsha Medical in the foreseeable future.

18 DIVIDENDS

No dividend has been paid or declared by the Target Company or any of its subsidiaries for the years ended December 31, 2015, 2016 and 2017.

19 SUBSIDIARIES

(a) *Investment in subsidiaries*

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.

(b) *Significant restrictions*

Cash and short-term deposits held in China are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from those countries, other than through normal dividends.

The carrying amount of the assets included within the consolidated financial statements to which these restrictions apply is US$1,599,000 (2016: US$8,930,000).

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for the subsidiary that has non-controlling interests that are material to the Target Group.

Summarised balance sheet

	Guangsha Medical	
	As at December 31,	
	2016	**2017**
	RMB'000	*RMB'000*
Current		
Assets	223,924	102,229
Liabilities	(223,244)	(76,241)
Net current assets	680	25,988
Non-current		
Assets	66	52
Liabilities	—	—
Net non-current assets	66	52
Net assets	746	26,040

Summarised income statement

	Guangsha Medical	
	For the period from April 18, 2016 (date of acquisition) to December 31, 2016	Year ended December 31, 2017
	RMB'000	*RMB'000*
Revenue	—	37,694
(Loss)/Profit before income tax	(1,153)	33,726
Income tax expense	1,299	(8,431)
Profit for the period/year	146	25,295
Other comprehensive income	—	—
Total comprehensive income	146	25,295

Summarised cash flows

	Guangsha Medical	
	For the period from April 18, 2016 (date of acquisition) to December 31, 2016	Year ended December 31, 2017
	RMB'000	*RMB'000*
Net cash used in operating activities	(293)	(1,999)
Net cash generated from investing activities	932	165,028
Net cash used in financing activities	—	(161,054)
Net increase in cash	639	1,975

20 CASH FLOW INFORMATION

(a) *Cash used in operations*

	Year ended December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/profit before income tax	—	(1,800)	33,579
Adjustments for:			
-Amortisation of intangible assets (Note 5)	—	2	14
-Interest income	—	(1)	(215)
-Foreign exchange gains	—	(1,587)	(145)
Changes in working capital:			
- Other receivables	—	7,120	(79)
- Amounts due from related parties	—	—	(39,956)
- Other payables	—	(7,049)	865
Cash used in operations	—	(3,315)	(5,937)

(b) *Net debt reconciliation*

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Year ended December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	—	9,569	4,213
Amount due to a third party within one year	—	(219,173)	(64,173)
Amount due to a related party within one year	—	(11,264)	(4,079)
Net debt	—	(220,868)	(64,039)
Cash	—	9,569	4,213
Gross debt-free interest rates	—	(230,437)	(68,252)
New debt	—	(220,868)	(64,039)

	Other assets	Liabilities from financing activities		
	Cash	Amounts due to a third party within one year	Amounts due to shareholder within one year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net debt as at January 1,2015	—	—	—	—
Cash flows	—	—	—	—
Net debt as at December 31,2015	—	—	—	—
Cash flows	7,982	7,120	(11,264)	3,838
Foreign exchange adjustments	1,587	—	—	1,587
Other non-cash movements (i)	—	(226,293)	—	(226,293)
Net debt as at December 31,2016	9,569	(219,173)	(11,264)	(220,868)
Cash flows	(5,501)	155,000	7,185	156,684
Foreign exchange adjustments	145	—	—	145
Net debt as at December 31, 2017	4,213	(64,173)	(4,079)	(64,039)

(i) As at April 18, 2016 (date of acquisition), Guangsha Medical had balance due to Guangsha Group of RMB 226,293,000.

(ii) Other than the above analysis of the movements in net debt for each of the periods presented, Guangsha Medical had borrowed a bank borrowing of RMB 170,000,000 and fully repaid the borrowing and relevant interest excpenses of RMB 6,055,000 during the year of 2017.

21 BUSINESS COMBINATIONS

On April 18, 2016 (date of acquisition), Impeccable Success acquired the 75% equity interests in Guangsha Medical from Guangsha Group, the then controlling shareholder, at a consideration of RMB 600,000,000, and thereafter has obtained the control of Guangsha Medical.

As a result of the acquisition, the Target Group is expected to increase its presence in hospital management industry. The goodwill of RMB 599,550,000 arising from the acquisition is attributable to Guangsha Medical's potential profitability in hospital management services business in the future. None of the goodwill recognised is expected to be deductible for income tax purpose.

The following table summarises the consideration paid for Guangsha Medical, the fair value of assets acquired, liabilities assumed at the acquisition date.

	RMB'000
Purchase consideration	
- Cash paid by Impeccable Success	600,000
Total consideration	600,000
Fair value of identifiable assets acquired and liabilities assumed	
Amounts due from related parties	223,773
Other receivables	7,120
Amounts due to related parties	(230,293)
Total net identifiable assets	600
Non-controlling interest	(150)
Goodwill (Note 5)	599,550

22 COMMITMENTS

There was no significant non-cancellable capital commitment or operating lease commitment as at December 31, 2015, 2016 and 2017.

23 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Other parties are also considered to be related if they are subject to common control, common significant influence or joint control. Members of key management and their close family member of the Target Group are also considered as related parties.

The directors are of the view that the following parties that had transactions or balances with the Target Group are related parties:

Name	Relationship with the Target Group
Jinhua Hospital	Certain key management personnel or directors of Guangsha Medical are Jinhua Hospital's internal governance body members
Dongyang Guangfu Hospital	Certain employees or directors of Guangsha Medical are Dongyang Guangfu Hospital's internal governance body members
Yongkang Hospital	Certain employees or directors of Guangsha Medical are Yongkang Hospital's internal governance body members
Guangsha Holding Group Ltd.	The then controlling shareholder of Guangsha Medical before April 18, 2016 (date of acquisition)

(i) As set out in Note 4(d), Guangsha Medical has exercised significant judgements in determining whether Guangsha Medical has control over the Not-for-profit Hospitals. After assessment, the management concluded that Guangsha Medical does not obtain the unilateral decision making power over the internal governance body to direct the relevant activities of the Not-for-profit Hospitals, so Guangsha Medical does not control and thus does not consolidate the Not-for-profit Hospitals.

The following significant transactions were carried out between the Target Group and its related parties during the years ended December 31, 2015, 2016 and 2017. In the opinion of the directors of the Target Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Target Group and the respective related parties.

(a) *Transactions with related parties*

	Year ended December 31,		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
(i) Management Service fee			
— Jinhua Hospital (Note 13)	—	—	37,694
(ii) Bearing interests			
-Loans to the related parties (Note a)	—	—	(170,000)
-Repayments from the related parties	—	—	170,000
(iii) Interest income (Note b)	—	—	6,055
(iv) Provision of maximum amount guarantee to a related party (Note c)	—	—	550,000
(v) Provision of maximum amount pledge to a related party (Note c)	—	—	412,500

Note a: The related parties include Jinhua Hospital and Dongyang Guangfu Hospital.

Note b: Interest income was related to loans to the related parties, bearing interest rates 6% per annum.

Note c: As of December 31, 2017, the bank borrowings of Jinhua Hospital amounting to RMB360,000,000 were guaranteed by Guangsha Medical and were also pledged by Impeceable Success with its equity interests in Guangsha Medical.

(b) *Balances with related parties*

Balance with related parties as at December 31, 2015, 2016 and 2017 were disclosed in Note 6.

24 CONTINGENCIES

The Target Group had no material contingent liabilities outstanding as at December 31, 2015, 2016 and 2017.

25 BENEFITS AND INTERESTS OF DIRECTORS

(a) *Director's emoluments*

No remuneration of directors for the years ended December 31, 2015, 2016 and 2017 has been paid.

No directors waived or agreed to waive any emoluments during the years ended December 31, 2015, 2016 and 2017. No emoluments were paid to directors as an inducement to join or upon joining the Target Group or as compensation for loss of office during the years ended December 31, 2015, 2016 and 2017.

(b) *Directors' material interests in transactions, arrangements or contracts*

No significant transactions, arrangements and contracts in relation to the Target Group's business to which the Target Company was a party and in which a director of the Target Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended December 31, 2015, 2016 and 2017.

26 EVENTS AFTER THE BALANCE SHEET DATE

There were no subsequent events that need disclosure.

III. ADDITIONAL FINANCIAL INFORMATION OF GUANGSHA MEDICAL

The following is the financial information of Zhejiang Guangsha Medical technology Co., Ltd. for the year ended December 31, 2015 and the period from January 1, 2016 to April 18, 2016 (date of acquisition) before Zhejiang Guangsha Medical technology Co., Ltd. became a subsidiary of the Target Company.

BALANCE SHEETS OF GUANGSHA MEDICAL

	Note	**As at December 31, 2015**	**As at April 18, 2016 (date of acquisition)**
		RMB'000	*RMB'000*
ASSETS			
Current assets			
Other receivables		7,120	7,120
Amounts due from related parties	3	—	223,773
Cash and cash equivalents		10	—
Total current assets		7,130	230,893
Total assets		7,130	230,893
EQUITY			
Equity attributable to owners of Guangsha Medical			
Paid in capital	4	80,000	88,880
Reserves	5	(52,830)	(48,230)
Accumulated losses		(36,048)	(40,050)
Total equity		(8,878)	600
LIABILITIES			
Current liabilities			
Amounts due to a related party	3	16,007	—
Other payables	6	1	230,293
Total current liabilities		16,008	230,293
Total liabilities		16,008	230,293
Total equity and liabilities		7,130	230,893

STATEMENTS OF COMPREHENSIVE INCOME OF GUANGSHA MEDICAL

	Note	**Year ended December 31, 2015**	**Period from January 1, 2016 to April 18, 2016 (date of acquisition)**
		RMB'000	*RMB'000*
Revenue		—	—
Cost of revenue		—	—
Gross profit		—	—
Administrative expenses	7	(40)	(4,002)
Other losses	8	(36,007)	—
Loss before income tax		(36,047)	(4,002)
Income tax expense		—	—
Loss for the year/period		(36,047)	(4,002)
Other comprehensive income		—	—
Total comprehensive loss		(36,047)	(4,002)
Total comprehensive loss attributable to owners of Guangsha Medical		(36,047)	(4,002)

STATEMENTS OF CHANGES IN EQUITY OF GUANGSHA MEDICAL

		Attributable to owners of Guangsha Medical			
	Note	**Paid in capital**	**Other reserves**	**Accumulated losses**	**Total equity**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at January 1, 2015		80,000	(52,830)	(1)	27,169
Comprehensive income — Loss for the year		—	—	(36,047)	(36,047)
Balance at December 31, 2015		80,000	(52,830)	(36,048)	(8,878)
Balance at January 1, 2016		80,000	(52,830)	(36,048)	(8,878)
Comprehensive income — Loss for the period		—	—	(4,002)	(4,002)
Capital injection	4	8,880	—	—	8,880
Capital contribution by shareholder	5	—	4,600	—	4,600
Balance at April 18, 2016 (date of acquisition)		88,880	(48,230)	(40,050)	600

STATEMENTS OF CASH FLOWS OF GUANGSHA MEDICAL

	Note	**Year ended December 31, 2015**	**Period from January 1, 2016 to April 18, 2016 (date of acquisition)**
		RMB'000	*RMB'000*
Cash flows from operating activities			
Cash used in operations	9	(40)	(3)
Net cash used in operating activities		(40)	(3)
Cash flows from investing activities			
Loans to related parties		—	(223,773)
Net cash used in investing activities		—	(223,773)
Cash flows from financing activities			
Capital contribution from shareholder		—	4,600
Shareholder's injection	4	—	8,880
Repayment to related parties		—	(16,007)
Loans from related parties		—	226,293
Net cash generated from financing activities		—	223,766
Net decrease in cash		(40)	(10)
Cash and cash equivalents at beginning of year/period		50	10
Cash and cash equivalents at end of year/period		10	—

1 GENERAL INFORMATION

Zhejiang Guangsha Medical technology Co., Ltd. ("Guangsha Medical") was incorporated in the People's Republic of China (the "PRC") on October 29, 2014 as a limited liability company. The address of Guangsha Medical's registered office is NO. 166, Guyu Road, Xihu District, Hangzhou, the PRC.

During the year ended December 31, 2015 and the four months ended April 18, 2016 (date of acquisition), Guangsha Medical is principally engaged in holding hospitals' founder rights, and preparation for the set-up of management and consulting services.

On April 18, 2016 (date of acquisition), Impeccable Success Limited ("Impeccable Success"), a wholly-owned subsidiary of Oriental Ally Holdings Limited ("Oriental Ally" or the "Target Company"), acquired the 75% equity interests of Guangsha Medical at a consideration of RMB 600,000,000. Upon completion of this acquisition, Guangsha Medical has been controlled by Impeccable Success.

2 BASIS OF PREPARATION

The Historical Financial Information of Guangsha Medical for the year ended Decemeber 31,2015 and the period from January 1, 2016 to April 18, 2016 (date of acquisition) has been prepared in accordance with IFRSs issued by the IASB. The Historical Financial Information has been prepared under the historical cost convention in accordance with the accounting policies of the Target Group presented on the basis set out in Note 2 of Section II. These policies have been consistently applied throughout the year ended December 31, 2015 and the period from January 1, 2016 to April 18, 2016 (date of acquisition).

3 BALANCES WITH RELATED PARTIES

As at December 31, 2015 and April 18, 2016 (date of acquisition), the balances with related parties are unsecured, interest-free, and receivable/repayable on demand and are denominated in RMB.

	As at December 31, 2015	**As at April 18, 2016 (date of acquisition)**
	RMB'000	*RMB'000*
Amounts due from related parties		
— Others (not trade in nature)		
Jinhua Hospital	—	104,744
Dongyang Guangfu Hospital	—	119,029
	—	223,773

As at December 31, 2015, and April 18, 2016 (date of acquisition), none of relevant receivables was individually determined to be impaired.

	As at December 31, 2015	As at April 18, 2016 (date of acquisition)
	RMB'000	*RMB'000*
Amounts due to a related party		
— Others (not trade in nature)		
Yongkang Hospital	16,007	—
	16,007	—

Their carrying values due as at December 31, 2015 and April 18, 2016 (date of acquisition) approximate their fair values.

4 PAID IN CAPITAL

	Amount
	RMB'000
At January 1, 2015	80,000
At December 31, 2015	80,000
At January 1, 2016	80,000
Capital injection (a)	8,880
At April 18, 2016 (date of acquisition)	88,880

(a) On March 24, 2016, Guangsha Medical received RMB 8,880,000 capital injection from Guangsha Holding Group Ltd.

5 RESERVES

	Other reserve
	RMB'000
At January 1, 2015	(52,830)
At December 31, 2015	(52,830)
At January 1, 2016	(52,830)
Capital contribution by shareholder (a)	4,600
At April 18, 2016 (date of acquisition)	(48,230)

(a) *Capital contribution by shareholder*

In April 2016, Guangsha Medical transferred 6% of the founder rights of Jinhua Hospital to Hangzhou Linglan Industry Co., Ltd, which is a related party of Guangsha Holding Group Ltd at a consideration of RMB 3,600,000.

In March 2016, Guangsha Medical transferred 20% of the founder rights of Dongyang Guangfu Hospital to Hangzhou Linglan Industry Co., Ltd at a consideration of RMB 1,000,000.

6 OTHER PAYABLES

	As at December 31, 2015	As at April 18, 2016 (date of acquisition)
	RMB'000	*RMB'000*
Amounts due to Zhejiang Guangsha Holdings Group Ltd.	—	226,293
Other payables	1	4,000
	1	230,293

The carrying amounts of other payables are denominated in RMB. The carrying amounts approximate their fair values due to their short-term maturities.

7 EXPENSES BY NATURE

	Year ended December 31, 2015	Period from January 1, 2016 to April 18, 2016 (date of acquisition)
	RMB'000	*RMB'000*
Professional fees in respect of preparation for the acquisition	—	4,000
Other expenses	40	2
	40	4,002

8 OTHER LOSSES

	Year ended December 31, 2015	Period from January 1, 2016 to April 18, 2016 (date of acquisition)
	RMB'000	*RMB'000*
Contribution to a not-for-profit hospital	36,007	—

9 CASH FLOW INFORMATION

(a) Cash used in operations

	Year ended December 31, 2015	Period from January 1, 2016 to April 18, 2016 (date of acquisition)
	RMB'000	*RMB'000*
Loss before income tax	(36,047)	(4,002)
Changes in working capital:		
— Amounts due from related parties	20,000	—
— Amounts due to related parties	16,007	—
— Other payables	—	3,999
Cash used in operations	(40)	(3)

(b) Net debt reconciliation

	Other assets	Liabilities from financing activities		
	Cash	Amount due to a related party within one year	Amount due to a third party within one year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net debt as at January 1, 2015	50	(16,007)	—	50
Cash flows	(40)	—	—	(16,047)
Net debt as at December 31, 2015	10	(16,007)	—	(15,997)
Cash flows	(10)	16,007	(226,293)	(210,296)
Net debt as at April 18, 2016	—	—	(226,293)	(226,293)

10 COMMITMENTS

There was no significant non-cancellable capital commitment or operating lease commitment as at December 31, 2015 and April 18, 2016 (date of acquisition).

11 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are under common control or joint control in the controlling shareholder' families. Members of key management are also considered as related parties.

The executive directors are of the view that the following parties that had transactions or balances with Guangsha Medical are related parties:

Name	Relationship with Guangsha Medical
Jinhua Hospital	Certain directors of Guangsha Medical are Jinhua Hospital's internal governance body members
Dongyang Guangfu Hospital	Certain directors of Guangsha Medical are Dongyang Guangfu Hospital's internal governance body members
Yongkang Hospital	Certain directors of Guangsha Medical are Yongkang Hospital's internal governance body members

Hangzhou Linglan Industry Co., Ltd	Certain directors of Hangzhou Linglan Industry Co., Ltd are Jinhua Hospital and Dongyang Guangfu Hospital's internal governance body members
Guangsha Holding Group Ltd	Guangsha Medical's controlling shareholder before April 18, 2016 (date of acquisition)

(a) *Transactions with related parties*

	Year ended December 31, 2015	Period from January 1, 2016 to April 18, 2016 (date of acquisition)
	RMB'000	*RMB'000*
Transfer founder rights of Jinhua Hospital and Dongyang Guangfu Hospital to Hangzhou Linglan Industry Co., Ltd	—	4,600

The carrying amounts of other payables are denominated in RMB. The carrying amounts approximate their fair values due to their short-term maturities.

(b) *Balances with related parties*

Balances with related parties as at December 31, 2015 and April 18, 2016 (date of acquisition) were disclosed in Note 3.

(c) *Key management compensation*

Key management includes directors and senior managements. At April 1, 2016, key management signed contracts with Guangsha Medical and became Guangsha Medical's employee. As at April 18, 2016, key management compensation is obviously inconsequential. No compensation paid or payable to key management for employee services during the year ended December 31, 2015 and the period from January 1, 2016 to April 18, 2016 (date of acquisition).

12 CONTINGENCIES

Guangsha Medical had no material contingent liabilities outstanding as at December 31, 2015 and April 18, 2016 (date of acquisition).

13 BENEFITS AND INTERESTS OF DIRECTORS

(a) *Director's emoluments*

No remuneration of directors for the year ended December 31, 2015 and the period from January 1, 2016 to April 18, 2016 (date of acquisition) has been paid.

No directors waived or agreed to waive any emoluments during the year ended December 31, 2015 and the period from January 1, 2016 to April 18, 2016 (date of acquisition). No emoluments were paid to directors as an inducement to join or upon joining Guangsha Medical or as compensation for loss of office during the year ended December 31, 2015 and the period from January 1, 2016 to April 18, 2016 (date of acquisition).

(b) *Directors' material interests in transactions, arrangements or contracts*

No significant transactions, arrangements and contracts in relation to Guangsha Medical business to which the Guangsha Medical was a party and in which a director of the Guangsha Medical had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2015 and the period from January 1, 2016 to April 18, 2016 (date of acquisition).

14 EVENTS AFTER THE BALANCE SHEET DATE

There were no subsequent events that need disclosure.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to December 31, 2017 and up to the date of this report. Other than disclosed in this report, no dividend or distribution has been declared or made by the Target Company or any of its subsidiaries in respect of any period subsequent to December 31, 2017.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at December 31, 2017 (the "Unaudited Pro Forma Financial Information") which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the acquisition of the 100% equity interest in Oriental Ally Holdings Limited (the "Target Company"), and its subsidiaries (the "Target Group") (the "Acquisition"), as if the Acquisition had been taken place on December 31, 2017. This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at December 31, 2017 or at any future date.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	Unaudited pro forma adjustments				
	Audited consolidated statement of assets and liabilities of the Group as at December 31, 2017	Audited consolidated statement of assets and liabilities of the Target Group as at December 31, 2017	Other pro forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at December 31, 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
ASSETS					
Non-current assets					
Property, plant and equipment	18,383	—	—	—	18,383
Intangible assets	1,059,402	599,603	316,499	—	1,975,504
Other receivables , deposits and prepayments	483,506	—	—	—	483,506
Total non-current assets	1,561,291	599,603	316,499	—	2,477,393
Current assets					
Available-for-sale financial asset	17,396	—	—	—	17,396
Other receivables, deposits and prepayments	80,202	79	—	—	80,281
Amounts due from related parties	45,840	99,536	—	—	145,376
Cash and cash equivalents	260,787	4,213	—	—	265,000
Total current assets	404,225	103,828	—	—	508,053
Total assets	1,965,516	703,431	316,499	—	2,985,446
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	35,633	—	173,200	—	208,833
Borrowing	214,618	—	—	—	214,618
Accruals and other payables	3,311	—	—	—	3,311
Total non-current liabilities	253,562	—	173,200	—	426,762
Current liabilities					
Borrowing	23,846	—	—	—	23,846
Accruals and other payables	113,662	69,109	—	—	182,771
Amounts due to related parties	3,186	4,079	—	—	7,265
Financial liabilities at fair value through profit or loss	—	—	630,000	—	630,000
Financial liabilities at amortised cost	—	—	—	233,517	233,517
Current income tax liabilities	9,135	7,132	—	—	16,267
Total current liabilities	149,829	80,320	630,000	233,517	1,093,666
Total liabilities	403,391	80,320	803,200	233,517	1,520,428
Net assets/(liabilities)	1,562,125	623,111	(486,701)	(233,517)	1,465,018

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The balances are extracted from the audited consolidated balance sheet of the Group as at December 31, 2017 as set out in the Company's published annual report for the year ended December 31, 2017.

2. The balance are extracted from the audited consolidated balance sheet of the Target Group as at December 31, 2017 as set out in the accountant's report of the Target Company in Appendix II to this circular.

3. Upon the completion of the Acquisition, the Company will directly hold 100% of equity interest in the Target Company and the Target Company will become a subsidiary of the Company. Through the Target Company, the Company will indirectly hold 75% equity interest in Guangsha Medical and the remaining 25% equity interest (the "Remaining Interest") held by Hony Kangshou Management Consulting (Shanghai) Co., Ltd. ("Hony Kangshou") shall be recognized as non-controlling interests. The identifiable assets and liabilities of the Target Group will be accounted for in the Enlarged Group at their fair values using the acquisition accounting method in accordance with International Financial Reporting Standard 3 (Revised) "Business Combinations" issued by the International Accounting Standards Board.

   The adjustments represent the fair value adjustments to the identifiable assets and liabilities, and goodwill of approximately RMB223,249,000 being the excess of the consideration transferred over the fair value of the identified net assets acquired.

		RMB'000
Consideration		
Convertible bonds issued by the Company to the Seller	(a)	630,000
Total Consideration		630,000
Fair value of identifiable assets and liabilities		
Carrying amount of net assets of the Target Group as at December 31, 2017		623,111
Less: carrying amount of goodwill as at December 31, 2017	(b)	599,550
Carrying amount of net identifiable assets of the Target Group as at December 31, 2017		23,561
Valuation adjustments on identifiable assets and liabilities	(c)	
— Management Contract		692,800
Less: related deferred income tax liabilities		(173,200)
Total net identifiable assets		543,161
Non-controlling interest	(d)	136,410
Goodwill to be recognized from the Acquisition		223,249

(a) Pursuant to the Shares purchase agreement (the "Shares Purchase Agreement") entered into between the Company and Hony Capital Fund VIII (Cayman), L.P. (the "Seller") on May 29, 2018, the total consideration of the Acquisition is RMB630, 000,000. The consideration shall be satisfied by the issuance of the convertible bonds (the "Convertible Bonds") in the aggregate principal amount of HK$773,879,717 by the Company to the Seller (or such person as the Seller may nominate) on the completion date of the Acquisition pursuant to the Shares Purchase Agreement and subject to the terms and conditions to the Convertible Bonds.

(b) The carrying amount of goodwill as at December 31, 2017 was related to the acquisition of Guangsha Medical in April, 2016, which is not an identifiable asset from the Company's perspective.

(c) The Directors of the Company have determined the fair values of the identifiable assets and liabilities of the Target Group as at December 31, 2017 with reference to a valuation report in relation to the purchase price allocation of this Acquisition issued by an independent valuer. The valuation adjustments on identifiable assets and liabilities are calculated by deducting carrying amount of identifiable assets and liabilities from the fair value of identifiable assets and liabilities.

(d) The Enlarged Group recognises non-controlling interests at the non-controlling interest's proportionate share of the Guangsha Medical's identifiable net assets.

(e) The breakdown of the adjustments to the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group relating to intangible assets as at December 31, 2017 are set out below:

	RMB'000
Management Contract	692,800
Goodwill to be recognized from the Acquisition	223,249
Less: carrying amount of existing goodwill of the Target Group as at December 31, 2017	(599,550)
	316,499

(f) For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, fair values of the identifiable assets and liabilities of the Target Group as at December 31, 2017 were used to determine the goodwill arising from the Acquisition. Upon completion of the Acquisition, the fair values of the net identifiable assets of the Target Group as at the date of completion will be used to determine the actual amount of the goodwill arising from the Acquisition. Such difference between the actual amount and the valuation as at December 31, 2017 may be significant.

(g) As of the date of this circular, the Directors have not finalised the allocation of goodwill to be recognized from the Acquisition and have not noted any goodwill impairment indicator. Accordingly, the Directors of the Company have not performed any impairment assessment of the goodwill. The Directors of the Company will adopt the consistent accounting policies as principle assumptions to assess the goodwill in the future.

4. Pursuant to the undertaking letter (the "Undertaking Letter") in relation to the Acquisition, the Company granted Hony Kangshou a put option to sell and the Company undertakes to acquire the Remaining Interest at the consideration which shall be no less than an amount calculated in accordance with an agreed formula. Hony Kangshou may exercise the put option at any time during the period commencing from the completion date of the Acquisition and ending on the date falling on the third anniversary of the completion date on the terms and conditions of the Undertaking Letter.

   The Directors of the Company have determined the present value of the redemption amount of the put option is RMB 233,517,000 as at December 31, 2017 with reference to a valuation report issued by an independent valuer.

   For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the present value of the redemption amount of the put option as at December 31, 2017 may be different from the present value of the redemption amount of the put option at the date of the Acquisition. Such difference between the actual amount and the present value of the redemption amount as at December 31, 2017 may be significant.

5. No adjustment has been made to the Unaudited Pro Forma Financial Information of the Enlarged Group to reflect any trading results or other transaction of the Group and the Target Group entered subsequent to December 31, 2017.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Hospital Corporation of China Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hospital Corporation of China Limited (the "Company") and its subsidiaries (collectively the "Group"), and Oriental Ally Holdings Limited and its subsidiaries (the "Target Group") (collectively the "Enlarged Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at December 31, 2017, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-5 of the Company's circular dated June 24, 2018, in connection with the proposed acquisition of the Target Group (the "Acquisition") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on page III-1.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Acquisition on the Group's financial position as at December 31, 2017 as if the Acquisition had taken place at December 31, 2017. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended December 31, 2017, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at December 31, 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong,
June 24, 2018

Set out below is the management discussion and analysis of the Target Group for the years ended December 31, 2015, 2016 and 2017 (the "**Review Period**"), which should be read in conjunction with the accountant's report of the Target Group set out in Appendix II of this circular.

OVERVIEW

The Target Company was incorporated on May 2, 2014 as an investment holding company. The Target Company indirectly owns 75% share capital in Guangsha Medical, which founded and manages Jinhua Hospital. The relationship between Guangsha Medical and Jinhua Hospital is governed by the Hospital Management Letter of Intent and the Hospital Management Agreement 2017, both entered into in 2017, pursuant to which, Guangsha Medical shall provide management and consultancy services to Jinhua Hospital for a period of 50 years until December 31, 2066, and the specific terms including payment terms and scope of services shall be set out and governed by separate hospital management agreements to be entered into between the parties every three years.

BUSINESS REVIEW AND PROSPECTS

The Target Group is expected to continue to expand its hospital management services. In particular, the Target Group will continue to provide hospital management services through Guangsha Medical to Jinhua Hospital and to provide hospital management services to Dongyang Hospital and Yongkang Hospital by entering into hospital management agreements with each of them by the end of 2018. Jinhua Hospital was developed as a Class IIIB specialty hospital and registered as a Privately-funded Non-enterprise Entity with specialty in oncology and cancer treatments, and is located in Jinhua city of Zhejiang province.

Financial Highlights

The key financial results of the Target Group for the Review Period are set out below:

	For the year ended December 31		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	—	—	37,694
Net (loss)/profit before taxation	—	(1,800)	33,579
Net (loss)/profit after taxation	—	(501)	25,148
Add back: One-off expenses*	—	—	1,635
Adjusted net (loss)/profit after taxation	—	(501)	26,783
Adjusted net (loss)/profit attributable to shareholders	—	(537)	20,050

* *The one-off expenses represent the payment for professional service fees to the auditors in relation to the Proposed Acquisition.*

Results

The Target Group had no business activity during the period from the date of incorporation of the Target Company, i.e. May 2, 2014, to April 18, 2016. The Target Group recorded nil turnover and a net loss before tax of RMB1.8 million for the year ended December 31, 2016 which mainly comprised of administrative expenses and finance income. The administrative expenses of RMB2.6 million include professional service fee in respect of the acquisition of Guangsha Medical on April 18, 2016 (the "**Guangsha Medical Acquisition**"), utilities and office expenses and other expenses. Finance income amounted to RMB1.6 million and is mainly comprised of exchange gains on cash and cash equivalents.

The Target Group started to generate revenue subsequent to the provision of hospital management services to Jinhua Hospital by Guangsha Medical in 2017. The revenue of the Target Group was RMB37.7 million for the year ended December 31, 2017 which comprised of management service fees received by Guangsha Medical from Jinhua Hospital. In order to provide management services, the Target Group incurred an employee benefit expense for recruitment of talent of approximately RMB1.2 million during the period. The Target Group recorded a gross loss of RMB0.8 million and a gross profit of RMB36.3 million for year ended December 31, 2016 and 2017 respectively. The gross profit recorded in 2017 was primarily attributable to the revenue generation of the management services provided by Guangsha Medical to Jinhua Hospital.

The net profit before income tax for the year ended December 31, 2017 was RMB33.6 million which was mainly contributed by the total revenue generated from provision of management services in the amount of RMB37.7 million. Administrative expenses increased from RMB2.6 million for the year ended December 31, 2016 to approximately RMB3.0 million for the same period of 2017 due to the increase in utilities and office expenses, including staff training and conference expenses, as a result of the hospital management services provided to Jinhua Hospital.

Finance income increased from RMB1.6 million for the year ended December 31, 2016 to RMB6.4 million for the same period of 2017. It mainly resulted from the interest income on loans from Guangsha Medical to Jinhua Hospital and Dongyang Hospital. For the year ended December 31, 2017, the Target Group recorded finance expenses of RMB6.1 million which was resulted from interest expense on bank borrowing.

The total comprehensive income increased from a loss of approximately RMB0.5 million for the year ended December 31, 2016 to RMB25.1 million for the same period of 2017 primarily due to the management fees received for the year ended December 31, 2017, offset by the increase in finance expenses and income tax expense.

Financial Position

As at December 31, 2016, total assets of the Target Group amounted to RMB832.5 million which was made up of (i) goodwill of RMB599.6 million as a result of the Guangsha Medical Acquisition representing Guangsha Medical's potential profitability in hospital management services business in the future; (ii) amounts due from Jinhua Hospital and Dongyang Hospital of RMB222.0 million; (iii) cash and cash equivalents of RMB9.6 million and (iv) deferred income tax assets of RMB1.3 million.

As at December 31, 2016, total liabilities of the Target Group amounted to RMB234.5 million which was mainly made up of (i) amounts due to Zhejiang Guangsha Holdings Group Ltd. of RMB219.2 million; and (ii) payables to professional service fee in respect of Guangsha Medical Acquisition of RMB4.0 million.

As at December 31, 2017, total assets of the Target Group decreased by RMB129.1 million to RMB 703.4 million which was mainly resulted from decreased balances of amounts due from Jinhua Hospital and Dongyang Hospital. Total liabilities of the Target Group decreased by RMB154.2 million to RMB80.3 million which was mainly resulted from decrease of RMB155.0 million in the amounts due to Zhejiang Guangsha Holdings Group Ltd.

The settlement of the amounts due from related parties and the amount due to a related party is not a condition to the Completion. Nevertheless, the Company expects the amount due from related parties that is not trade in nature and the amount due to a related party will be settled prior to Completion. The amounts due from related parties that are trade in nature (being management service fees) will be settled pursuant to the payment terms under the relevant hospital management agreement.

Liquidity and Financial Resources

As of December 31, 2016 and 2017, the Target Group recorded total liabilities of RMB234.5 million and RMB80.3 million respectively. As of December 31, 2016 and 2017, the Target Group had a net current liabilities of a RMB3.0 million and a net current assets of RMB23.5 million respectively. As of December 31, 2016, the Target Group had cash and cash equivalents of RMB9.6 million, of which RMB8.9 million was denominated in USD and RMB0.6 million was denominated in RMB. As at December 31, 2017, the Target Group had cash and cash equivalents of RMB4.2 million, of which RMB1.6 million was denominated in USD and RMB2.6 million was denominated in RMB.

During the Review Period, the Target Group had bank borrowing of RMB170 million denominated in RMB with fixed interest rate in 2017. Such bank borrowing was repaid in full by December 31, 2017. The Target Group's gearing ratio (calculated as amounts due to related parties and third parties, less cash and cash equivalent, divided by total equity) was 37% and 10% as at December 31, 2016 and 2017, respectively.

Treasury Policies

During the Review Period, the Target Group has no specific treasury policies.

Charge of Assets

As at April 30, 2018, Holdco has pledged its paid-up equity interests in Guangsha Medical to a bank to secure certain loans granted to Jinhua Hospital to the maximum amount of RMB412.5 million. Save as disclosed above, the Target Group did not have any charge on assets during the Review Period and as at April 30, 2018.

Significant Investments, Material Acquisition and Disposal

Except for the Guangsha Medical Acquisition, the Target Group did not have any significant investments, material acquisition and disposal during the Review Period.

Foreign Exchange Exposures

During the Review Period, the Target Group had cash and cash equivalents denominated in USD and RMB. Save for the aforementioned, the Target Group's operations were mainly located in the PRC and its assets, liabilities and transactions were mainly denominated in RMB. As such, the impact of fluctuations in foreign currency on the Target Group was minimal.

The Target Group did not enter into any financial instruments for hedging purposes during the year ended December 31, 2016 and 2017. The Target Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

Contingent Liability

As at December 31, 2015, 2016 and 2017, the Target Group did not have any outstanding material contingent liabilities.

Capital Commitment

As at December 31, 2015, 2016 and 2017, the Target Group did not have any significant non-cancellable capital commitment or operating lease commitment. The Target Group expects to invest in its management team in the near future by hiring new talents, which, for the coming year, will primarily be funded by internal sources of funds of the Target Group.

Employee and Remuneration Policy

As at December 31, 2016 and 2017, the Target Group employed a total of ten and ten employees respectively. The Target Group recorded employee benefit expenses of RMB0.8 million and RMB1.2 million for the year ended December 31, 2016 and 2017 respectively, which was made up of (1) wages, salaries and bonuses; and (2) other expenses.

The employees of the Target Group in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Target Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. With respect to the retirement benefits scheme, the Target Group is requested to make the specified contributions under scheme. The Target Group's staff recruitment and promotion are primarily based on individuals' merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefits policies, which are formulated by reference to the market, are competitive and performance-based.

The following is the text of a report set out on pages V-1 to V-23, received from the valuation advisors of the Company, Duff & Phelps China, for the purpose of incorporation in this circular.

June 24, 2018

The Directors
Hospital Corporation of China Limited
1602, Tower B, Jin Qiu International Building,
No.6, Zhichun Road, Haidian District,
Beijing, China, 100088

Our Ref.: 82232

Dear Sirs,

VALUATION REPORT ON MARKET VALUE OF 100% EQUITY INTEREST IN ORIENTAL ALLY HOLDINGS LIMITED

Pursuant to the terms, conditions and purpose of an engagement agreement dated September 8, 2017 and supplementary agreement dated December 26, 2017 (the "Engagement Agreements") between Hospital Corporation of China Limited ("Company" or "Client") and D&P China (HK) Limited ("Duff & Phelps China"), we have performed an analysis of market value (the "Valuation") of 100% equity interest in Oriental Ally Holdings Limited ("Oriental Ally" or the "Target Company") on a controlling basis as of December 31, 2017 (the "Valuation Date"). We understand that the Company contemplates the acquisition of the above mentioned interest and the Valuation is prepared based on the underlying assumptions and information provided by the management of the Company and the Target Company (together referred to as the "Management").

We understand that this letter will be adopted by the Company for public disclosure purpose in compliance with the Rules Governing the Listing of Securities on Stock Exchange ("Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). No third party shall have the right of reliance on this letter and neither receipt nor possession of this letter by any third party shall create any express or implied third-party beneficiary rights.

This letter identifies the asset appraised, describes the scope of work, states the basis of value, specifies key inputs and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. In preparing this letter, we aim to largely comply with the reporting standards recommended by the International Valuation Standards ("IVS"). The depth of discussion contained in this letter is specific to the needs of the Client and for the intended use as stated below. Supporting documentation concerning these matters has been retained in our work papers.

PURPOSE OF VALUATION

The Client intends to acquire 100% equity interest in Oriental Ally. With the Client's approval and as stipulated by the Engagement Agreements in formulating our opinion on the market value of equity interest in the Target Company, we relied upon completeness and accuracy of operational and financial information provided by the Management. To the extent that any of these assumptions or facts changed, the result of our market value conclusion should be different.

The intended use of the Valuation is to serve as the basis for compliance with the Listing Rules. The ultimate transaction, if happens, and the corresponding acquisition prices would be the results of negotiations between the transacting parties. The responsibility for determining the agreed acquisition price of the Target Company rests solely with the Company. The results of our analysis should not be construed to be a fairness opinion, a solvency opinion, or an investment recommendation. It is inappropriate to use our valuation report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of the financial projections and underlying assumptions.

STANDARD AND BASIS OF VALUE

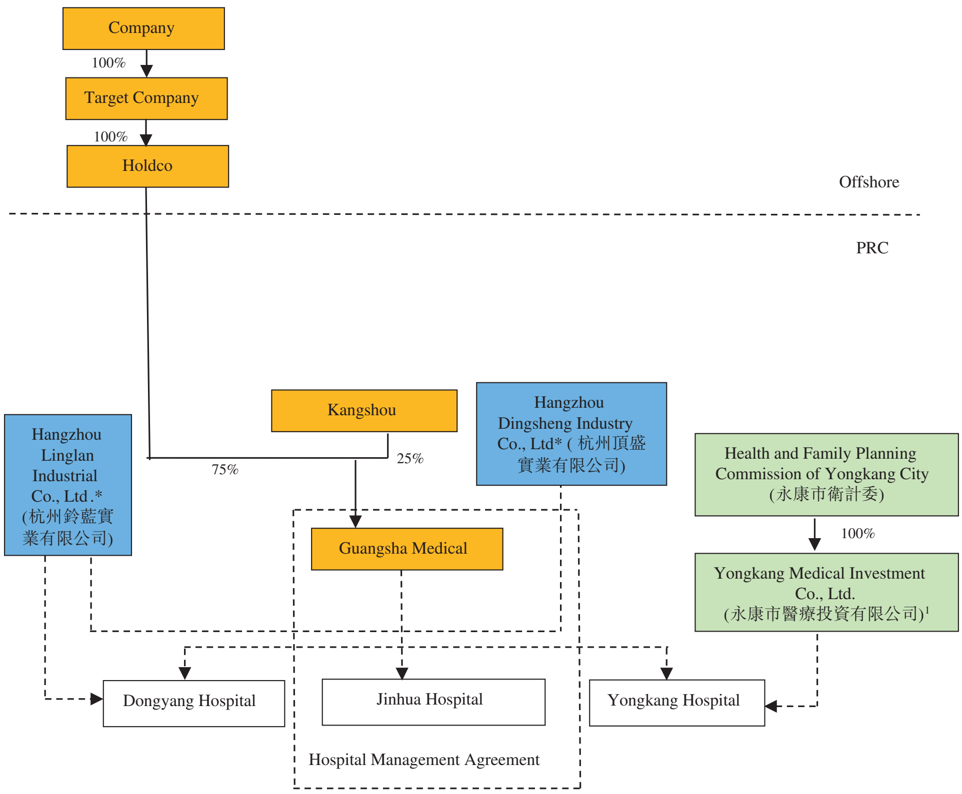
The Valuation was prepared on the basis of market value. Market value is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Business enterprise value is defined for this appraisal as the total invested capital, that is, equivalent to the combination of all interest-bearing debts, shareholders' loans and shareholders' equity. Alternatively, the business enterprise value is equivalent to the combination of all tangible assets (buildings, machinery and equipment), long-term investment, net operating working capital and intangible assets of a continuing business. Equity interest is equivalent to business enterprise value less interest-bearing debts.

DESCRIPTION OF THE TARGET COMPANY

The Target Company is a company established in the British Virgin Islands with limited liability and is an investment holding company. As at the Valuation Date, the Target Company directly owns the entire share capital in Impeccable Success Limited ("Holdco"), which in turn owns 75% share capital in Zhejiang Guangsha Medical Technology Co., Ltd ("Guangsha Medical"). Guangsha Medical is one of the founders of each of the three hospitals (the "Hospitals") and had paid 80%, 80% and 65% of the start-up capital in Zhejiang Jinhua Guangfu Oncological Hospital ("Jinhua Hospital"), Dongyang Guangfu Hospital ("Dongyang Hospital") and Yongkang Hospital (Yongkang Hospital"), respectively. As at the Valuation Date, Guangsha Medical manages Jinhua Hospital pursuant to the Hospital Management Agreements. The Holdco acquired 75% share capital in Guangsha Medical in April 2016 at a total consideration of RMB 600 million.

The shareholding structure upon completion of Reorganization is presented as below:



Note:

1. The entity is in the process of setting up as at the Latest Practicable Date.

Jinhua Hospital, located in Jinhua city of Zhejiang province, is constructed and developed as a general Class IIIB Hospital and registered as a Privately-funded Non-enterprise Entity providing comprehensive medical services with specialty in oncology and cancer treatments.

Dongyang Hospital, located in Dongyang, Jinhua city of Zhejiang province, is constructed and developed as a Class II Hospital and registered as a Privately-funded Non-enterprise Entity providing comprehensive medical services on common, frequently-occurring and chronic diseases and serving as a medical service center for local residents.

Yongkang Hospital, located in Yongkang city of Zhejiang province, is constructed and developed as a Class IIB Hospital and registered as a public institution providing general medical services on common, frequently-occurring and chronic diseases and serving as a regional medical platform for focused medical treatment.

The relationship between the Target Company & its subsidiaries (the "Target Group") and the Hospitals have been governed by the Hospital Management Agreements. As of the Valuation Date, Guangsha Medical has entered into a management agreement ("Jinhua Hospital Management Agreement") with Jinhua Hospital.

Jinhua Hospital is a not-for-profit hospital. Through the professional management services provided by Guangsha Medical, the Hospital Management Agreement aim to (i) enhance the ability of the medical staff; (ii) lower the acquisition costs of drugs, medical equipment and supplies; (iii) increase hospital management efficiencies; and (iv) improve the social and brand images of Jinhua Hospital, thereby increasing the economic benefits and medical service abilities of Jinhua Hospital.

Jinhua Hospital Management Agreement

On June 30, 2017, Guangsha Medical and Jinhua Hospital, amongst others, entered into a 50-year hospital management agreement, covering the period from January 1, 2017 to December 31, 2066. Pursuant to the Jinhua Hospital Management Agreement, Guangsha Medical agreed to provide corporate consultancy and management services to Jinhua Hospital, and Jinhua Hospital agreed to pay Guangsha Medical management service fees.

Set forth below is a summary of the key terms of the Jinhua Hospital Management Agreement:

- *Duration*: 50 years (from January 1, 2017 to December 31, 2066)

- *Scope of management services*: Guangsha Medical provides consultancy and management services to Jinhua Hospital in relation to corporate management and consulting services.

- *Management service fees*: Guangsha Medical receives a percentage of (i) Jinhua Hospital's annual revenue and (ii) target performance indicators as management service fees. The target performance indicators, which is confirmed annually by the parties, include the number of out-patient and in-patient visits, the satisfaction rate of various suppliers to Jinhua Hospital, and the satisfaction rate of hospital staff to Jinhua Hospital and to the services provided by Guangsha Medical.

- *Financial information of Jinhua Hospital*: Jinhua Hospital is required to provide its annual balance sheet, income statement and cash flow statement.

- *Exclusivity*: Without the prior written approval of Guangsha Medical, Jinhua Hospital may not engage any third party to provide it with hospital management service or support, or establish any similar arrangement with any third party.

REVIEW OF COMBINED FINANCIAL STATEMENT OF THE TARGET COMPANY AND GUANGSHA MEDICAL

We have reviewed the combined financial statements of Oriental Ally and Guangsha Medical for the financial years ended December 31, 2016 and December 31, 2017 provided by the Management without further verification.

The historical financial summary of Oriental Ally and Guangsha Medical were presented as below:

	Oriental Ally		Guangsha Medical	
RMB'000 unless specified otherwise	**FY 2016**	**FY 2017**	**FY 2016** *(Note 3)*	**FY 2017**
Revenue	0	37,694	0	37,694
Net Profit/Loss before Taxation	-1,800	33,579	-1,153	33,726
Net Profit/Loss after Taxation (Note 1)	-501	25,148	146	25,295
Add back: One-off Expenses (Note 2)	0	1,635	0	1,635
Adjusted Net Profit/Loss after taxation	-501	26,783	146	26,930
Total Assets	832,471	703,431	223,990	102,281
Net Asset Value	597,963	623,111	746	26,040

Source: the Management

Notes:

1. Net profit/loss after taxation of Guangsha Medical was based on Accountant's Report of the Target Group (Appendix II-39).

2. The one-off expenses represent the payment for professional service fees to the auditors in relation to the proposed acquisition.

3. The figure of revenue, net profit/loss before taxation and net profit/loss after taxation was for the period from April 18 (date of previous acquisition) to December 31, 2016

The Target Company was incorporated on May 2, 2014 as an investment holding company. The Target Company indirectly owns 75% share capital in Guangsha Medical. The Target Group had no business activity during the period from the date of incorporation of the Target Company to December 31, 2016. The Target Group recorded nil turnover and a net loss before tax of approximately RMB 1.8 million for the year ended December 31, 2016 which comprised of cost of revenue, administrative expenses and finance income. The administrative expenses of RMB 2.6 million include professional service fee in respect of acquisition of Guangsha Medical (the "Guangsha Medical Acquisition"), amortization and other expenses. Finance income, which mainly comprised of interest income on short-term bank deposit and exchange gains on cash and cash equivalents, amounted to RMB 1.59 million.

The sole non-current asset of the Target Company amounted to RMB 599.6 million on December 31, 2017 is its investment in 75% equity investment in Guangsha Medical, while majority of current assets and current liabilities at Target Company and Guangsha Medical are amount due to / from related parties. The Target Group generated revenue, which was management fee from Jinhua Hospital, of RMB 37.69 million for financial ended December 31, 2017. Cost of revenue and operating expense of the Target Group in 2017 was RMB 1.44 million and RMB 3.03 million, respectively. The Target Group recorded an earnings before interest and tax of RMB 33.22 million and net profit of RMB 25.15 million for the financial year ended December 31, 2017.

ECONOMIC OUTLOOK

A sound appraisal of a business or business interest must consider current and prospective economic conditions of the national economy. The major variables reviewed in order to evaluate the overall state of the national economy include the current level of and changes in the gross domestic product (GDP), exchange rate, and the inflation rate. An overview of the national economies of China were essential to develop this outlook. The following economic discussion was extracted from Economist Intelligence Unit ("EIU") dated December 1, 2017.

China

The EIU forecasts that real GDP growth will weaken sharply to 5.8% in 2018, from an estimated 6.8% this year. This will reflect a deliberate effort by the authorities to tighten credit policies in an effort to tackle the debt overhang that has emerged in recent years. EIU expects the slowdown to be concentrated in investment, the most credit-dependent component of GDP. This will reflect weaker activity in the highly leveraged property sector, in particular. But tougher credit conditions will have a broader impact, even affecting strongly performing parts of the economy, such as household consumption.

The EIU expects consumer prices to rise by 2.4% a year on average in 2018-22. In 2018 the pace of inflation will quicken to 2% against a low base in 2017, with food prices having passed their trough. Nevertheless, monetary policy tightening and a slowdown in economic growth will keep a lid on upward price pressures. A modest economic recovery in 2019 and looser credit policy later in the forecast period will then lift the rate of consumer price inflation higher.

An interventionist approach is likely to characterize exchange-rate policy in the near term. The People's Bank of China (PBC, the central bank) had taken steps to move towards a more flexible exchange-rate regime, notably by signaling in December 2015 that it would manage the renminbi's value against a basket of currencies. However, in practice the PBC has continued to prioritize a stable renminbi:US dollar exchange rate, mainly out of a desire to restrain capital outflows.

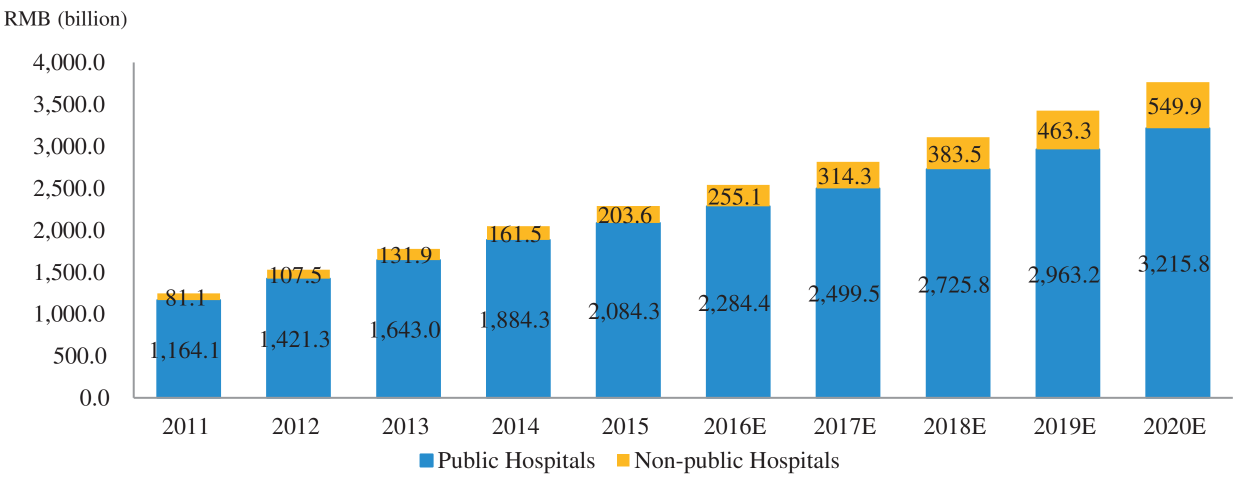
INDUSTRY OVERVIEW

The following section was extracted from "Industry Overview" published by Hospital Corporation of China Limited in February 2, 2017.

China Hospital Market

China's healthcare services providers can be categorized into three kinds: hospitals; primary healthcare institutions, such as community health centers; and other healthcare institutions, such as centers of disease control and preventive institutions for special diseases. Hospitals play the most essential role in China's healthcare service industry, by serving nearly 40.1% of total out-patients and over 76.4% of total in-patients in 2015. Revenue generated by healthcare providers in China reached RMB2,953.8 billion in 2015, of which RMB2,287.9 billion, or 77.5%, was attributable to hospitals. Overall hospital revenue in China grew at a CAGR of 16.4% from RMB1,245.1 billion in 2011 to RMB2,287.9 billion in 2015, and is estimated to further grow at a CAGR of 10.5% to RMB3,765.7 billion in 2020, according to the Frost & Sullivan Report.

Market Size of Hospitals, 2011-2020E

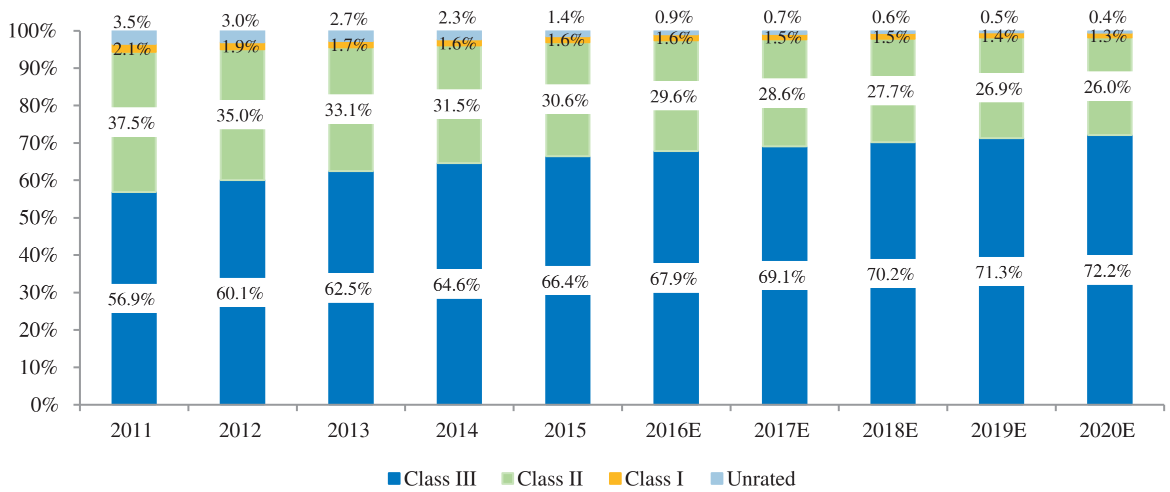


Source: NHFPC; the Frost & Sullivan Report

With regards to the total number of hospitals, there were 27,587 hospitals in China by the end of 2015. China's hospitals are mainly categorized as public hospitals and non-public hospitals. With regards to the classes of hospitals, China's hospitals are categorized as Class I hospitals, Class II hospitals and Class III hospitals, with Class III representing the highest evaluation. According to Frost & Sullivan, Class II and Class III are classifications of hospitals authorized by the PRC government and are determined by a number of criteria such as medical specialties, medical staff of hospitals, work efficiency and clinical skill. According to the same source, hospitals with Class II and Class III-equivalent scale are hospitals that are similar in size and level of service quality to those of Class II and Class III hospitals but have not been rated by the PRC government due to the complexities of China's hospital level evaluation procedures.

Class III public hospitals represent the largest market share in the public hospital market in China. The market share of Class III public hospitals among all public hospitals in China in terms of revenue grew from 56.9% to 66.4% from 2011 to 2015, and is expected to grow further in the future, according to the Frost & Sullivan Report.

Market Share of Various Rated Public Hospitals, 2011-2020E



Although the total number of non-public hospitals had outstripped that of public hospitals by the end of 2015, the total number of Class III hospitals is significantly lower than that of public hospitals, indicating that China's hospital industry is still dominated by public hospitals. In 2015, the total revenue of public hospitals reached RMB2,084.3 billion while that of non-public hospitals reached RMB203.6 billion. Although the market size of non-public hospitals is still small compared to that of public hospitals at present, non-public hospitals will play an increasingly important role in the healthcare service industry in the future. The following chart sets forth the number of hospitals in China in 2015.

Class	Public	Non-Public	Total
I	3,254	5,505	8,759
II	6,116	1,378	7,494
III	1,972	151	2,123
Unrated	1,727	7,484	9,211
Total	13,069	14,518	27,587

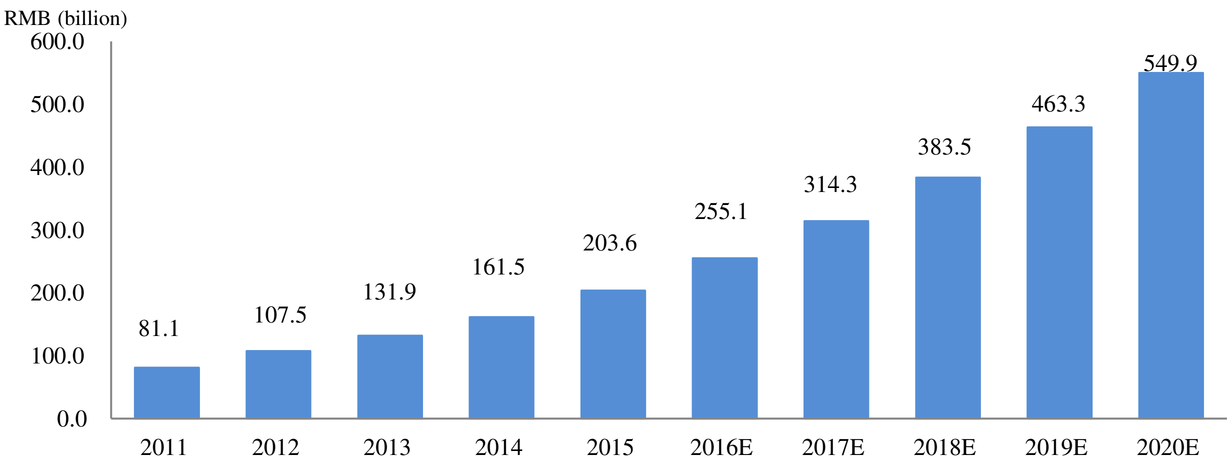
Source: NHFPC; the Frost & Sullivan Report

Non-public Hospitals in China

The number of non-public hospitals has grown rapidly due to government incentive policies, according to the Frost & Sullivan Report. The number of non-public hospitals has increased from 8,440 by the end of 2011 to 14,518 by the end of 2015, representing a CAGR of 14.5%. In the same period, the number of public hospitals decreased from 13,539 to 13,069. Moreover, the revenue of non-public hospitals increased from RMB81.1 billion in 2011 to RMB203.6 billion in 2015, with a CAGR of 25.9%. In the same period, the revenue of public hospitals increased from RMB1,164.1 billion to RMB2,084.3 billion, with a CAGR of 15.7%. Non-public hospitals are playing a more essential role in the healthcare service industry. Non-public hospitals represent the fastest growing sector in the healthcare service industry in China, and the growing trend is expected to continue in the next five years, according to the Frost & Sullivan Report.

Despite of the fast-growing trend, non-public hospitals are still developing at an early stage. Although the number of non-public hospitals had outstripped that of public hospitals by the end of 2015, the total revenue generated by non-public hospitals amounted to less than 10% as much as that of the public hospitals, indicating that non-public hospitals in China are still featured with low-earning performance. However, given that more and more non-public hospital groups have been developing through establishing, acquiring and/or cooperating with other hospitals or medical institutions, non-public hospitals are expected to have the competitive edge in the healthcare market and gradually become the major market players.

Market Size of Non-public Hospitals, 2011-2020E



Source: NHFPC; the Frost & Sullivan Report

Key Drivers of Non-public Hospital Market

With the accelerating aging population and rising prevalence of chronic, common and/or frequently-occurring diseases, public hospitals are unable to catch up with the rapid growth in demand for healthcare services, leading non-public hospitals to play an essential role to address the gap of unmet demand.

The key drivers of non-public hospital market are as follows, according to the Frost & Sullivan Report:

- *Incentive policies in healthcare reform:* the PRC Government has made enormous investment in healthcare reform, and the development of non-public hospitals has been set as a priority in the Government Work Report and the "13th five-year" healthcare planning. The PRC Government is making efforts to eliminate unfair treatments between public hospitals and non-public hospitals, creating a more favorable policy environment for non-public hospitals in respect of tax and other areas. The government has issued policies to encourage social capital investment in the healthcare industry and increase the number of beds invested by social capital to no less than 1.5 beds per thousand permanent residents (which was only 0.52 in 2013) in 2020, compared to 4.8 beds per thousand permanent residents for total hospital beds to be planned in 2020. Further, the scope of reimbursement of medical fees under public medical insurance has been expanded to cover certain qualified non-public medical institutions.

- *Multi-site physician practice:* pilot programs in certain cities allow doctors to practice in different places, or to work part-time in multiple hospitals. See "Regulatory Overview—Laws and Regulations Related to the Healthcare Services Sector in China—Regulations on Medical Personnel of Medical Institutions—Regulations on Physicians Who Practice at Multiple Medical Institutions" for more details. These favorable regulations promote the development of non-public hospitals because experienced physicians from prestigious public hospitals are now able to bring their advanced medical skills to non-public hospitals to treat more patients and provide valuable hands-on training to non-public hospitals' physicians. Multi-site physician practice also improves non-public hospitals' patient flow as patients who had difficulties making appointments with public hospitals' prestigious physicians may now consult them at the non-public hospitals where these physicians conduct multi-site practices.

- *Disproportionate allocation of medical resources:* large public hospitals are generally highly concentrated in the centers of major cities, leaving many areas underserved. However, ongoing urbanization has resulted in demand for hospitals in emerging urban and suburban areas of cities.

- *Huge unmet demand for treatments of common and chronic diseases:* Under the current medical system in China, higher-class hospitals undertake the majority of patient visits. However, due to their initial establishment for treatment of more severe diseases, such higher-class hospitals may neglect treatment for common and/or chronic diseases, which leads to the development of non-public hospitals that take on this underserved market.

- *Rising demands for high-end medical services:* along with increasing disposable income of Chinese residents in recent years, more and more people demand high-end medical service with more customization or privacy. However, public hospitals are limited by the government policies on high-end service offerings. Under such circumstance, non-public hospitals have ample room for developing high-end medical services to seize the underserved market.

Entry Barriers of Non-public Hospitals

- *Hospital management experience and knowledge:* rich hospital management experience is essential to improving the operation efficiency and service quality of hospitals. The management of hospitals shall be conducted by qualified management talents who specialize in both medical practices and enterprise operation, in order to be appropriately involved and engaged in the initial operation process of non-public hospitals, as well as to improve the performance of the hospitals. However, such qualified management teams are hard to find, especially for senior-level talents.

- *Medical professionals:* non-public healthcare service providers compete with their public counterparts for well-respected and experienced doctors. The restrictions imposed on their practices also impede the mobility of doctors between medical institutions.

- *Licensing and branding:* obtaining the license to establish and operate a non-public hospital in China is a complicated and lengthy process, and only a limited number of non-public hospitals have obtained approvals for licensing. Non-public hospitals are allowed to participate in ratings of hospitals and could become certified as Class III hospitals, which will attract more patients. However, the process may take as long as ten years. Further, branding of non-public hospitals is an essential factor which depends on the hospitals' operation ability.

- *Investment experience and resources:* sufficient fund support and strong investment strategies are necessary for entering the market of non-public hospitals. Sufficient fund support from investors is fundamental for the acquisition of land or other expensive items. Strong investment strategies from investors provide for higher potential positive return after operations commence.

Economic Benefits for Investors of Non-public Hospitals

Healthcare institutions can be divided into for-profit healthcare institutions and not-for-profit healthcare institutions, which differ in the objective of operation, registration procedure, and executive policies of finance, tax, price, and accounting rules. According to the Frost & Sullivan Report, the main registration authorities for for-profit non-public hospitals and not-for-profit non-public hospitals are the Administration for Industry and Commerce and the Civil Administration, respectively. For both for-profit non-public hospitals and not-for-profit non-public hospitals, charges for drugs and medical services that are covered by public medical insurance cannot be higher than the prescribed price ceilings set by the local authorities. Not-for-profit non-public hospitals may enjoy more preferential tax exemptions under the PRC laws than for-profit non-public hospitals. A vast majority of hospitals in China are not-for-profit hospitals, which are mainly owned by the government. Further, the development of non-public hospitals has been set as a priority in the healthcare reform of the government.

Investors of for-profit hospitals generate return by receiving dividends from the hospitals while not-for-profit hospitals are not allowed to distribute dividend to their owners. According to the industry norm, there are two ways that generally are regarded as the most common practices of getting economic benefits for investors of not-for-profit hospitals:

- *Charging management fees:*

Under most circumstances, investors of non-public hospitals will provide consulting service, brand image development service and market planning service to improve the operation efficiency and service quality of the hospitals through management companies they own. In return, the management companies will charge a management fee for the services they provide. To be specific, a management contract is signed between such management company and the hospital, where the fee is charged based on the services provided by the management company to the hospital. According to the Frost & Sullivan Report, management fees take up around 5%-30% of total revenue of the hospital as agreed upon by most management companies and hospitals.

Some cases of Management Fee or Equivalent Calculation

Healthcare Group	Hospital Invested	Management Fee Calculation	Source
Public Company A	Not-for-Profit Hospital D	5%-25% of revenue	Document
Public Company B	Not-for-Profit Hospital E	15% of revenue	Announcement published by the public company
Private Company C	Not-for-Profit Hospital F	25%-30% of revenue	Frost & Sullivan primary research

Source: the Frost & Sullivan Report

- *Undertaking medical supply chain + Charging management fees:*

The combination of undertaking medical supply chain and charging management fees is also one of the common practices of profit extraction from not-for-profit hospitals, which would involve a trusteeship contract between the investor and the hospital. To be specific, in such circumstance, the investment does not involve property ownership issues, but has privileged access to hospital operation via management assignment with the hospital. In such management assignment, the operations of medical supply chain and healthcare service form two main parts of the trusteeship, which generates remarkable profit for the trustee. Through operating the medical supply chain, the investor can generate profit from selling pharmaceutical or medical devices to the hospital. As for the operation of healthcare service, the healthcare management group charges certain proportion of revenue of the hospital as a reward of improvement in key performance indicator.

SCOPE OF WORK AND KEY ASSUMPTIONS

Our investigation included discussions with the Management with regard to the history, operations and prospects of the Target Group, overview of certain financial data, an analysis of the industry and competitive environment, an analysis of comparable companies, and a review of transactions, operating statistics and other relevant documents. For this appraisal, we made reference to or reviewed the following major documents and data:

- Financial statements of Oriental Ally and Guangsha Medical for the financial years ended December 31, 2016 and December 31, 2017
- Financial forecast for the year ended December 31, 2018 to December 31, 2022 of the Target Group based on the management fee expected from Jinhua Hospital, Dongyang Hospital and Yongkang Hospital. The financial forecast for December 31, 2018 to December 31, 2022 is solely for the purpose of internal reference and purchase price allocation to be performed
- Breakdowns of other receivables and prepayments, amounts due from related parties, accruals and other payables, amounts due to related parties
- A copy of Sales Purchase Agreement to acquire economic interest of the Target Company
- A copy of Hospital Management Agreement entered into between Guangsha Medical and Jinhua Hospital

We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us by the Management, are true and accurate and accepted them without independent verification except as expressly described herein. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading. In arriving at our opinion of value, we have considered the following principal factors:

- the stage of development of the Target Company
- the historical costs of the Target Company
- the economic outlook for major countries affecting the industry
- the legal and regulatory issues of the healthcare industry in general and other specific legal opinions relevant to the Target Company
- the transaction prices of the comparable companies
- the risks associated with the Target Company
- the history and experience of the Target Company

Due to the changing environments in which the Target Company is operating, a number of assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation are:

- no major changes are expected in political, legal and economic conditions in China;
- regulatory environment and market conditions for healthcare industry will be developing according to prevailing market expectations;
- there will be no major changes in the current taxation law applicable to the Target Company;
- The Target Company will not be constrained by the availability of finance;
- the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations; and
- The Target Company will retain competent management, key personnel and technical staff to support their ongoing operations.

VALUATION METHODOLOGY OVERVIEW

In the appraisal of the equity, or the net assets, of a business, regardless of their diversity, location, or technological complexity, there are three basic approaches to perform a valuation. The descriptive titles typically attached to these approaches are cost, income, and market. In normal circumstances, the appraiser is obliged to consider all three approaches, as any, or perhaps all, may provide reliable measures of value.

Cost approach established value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk.

Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach.

To develop our opinion of value, the three generally accepted approaches to value are considered: cost, market and income. While useful for certain purposes, the cost approach is generally not considered applicable to the valuation of a going concern business, as it does not capture future earning potential of the business. Thus, cost approach is not utilized in the valuation. The market approach may represent more objective view and more weight relatively under fair value measurement hierarchy but have the limitation in the case that those comparable companies may be in different operation period, cover different regions in the world with different business specialty, scale of operation, market situation, growth potential, business or country risks and tax rate. Income approach may reflect company specific factors related to the Hospital Management Agreement operation, geographic regions, scale of operation, growth potential and tax rate of the Target Company and the Hospitals, but have the limitation that it would involve a high level of uncertain, long-term forward-looking financial forecast and underlying assumptions. In this appraisal, we believed income approach result would be more dependent on long term financial forecast internally prepared by the Management, which is unobservable input and inherently subjective. In comparison, because market approach mainly utilizes market observable inputs, actual financial performance of Guangsha Medical in latest financial year, it would provide more objective indication of market value from a willing buyer and willing seller's perspective. With consideration of the above, in forming our opinion, we consider market approach is more appropriate than income approach in the Valuation. Under market approach, we used both guideline company method ("Guideline Company Method" or "GCM") and guideline transaction method ("Guideline Transaction Method" or "GTM") to arrive at our conclusion of value.

In the Target Group, Guangsha Medical is the major income generating entity while Oriental Ally and Impeccable Success are investment holding companies. Therefore, in this appraisal, we first used market approach to derive market value of 75% equity interest of Guangsha Medical. We then added excess cash and non-operating assets held by Oriental Ally and Impeccable Success to arrive at market value of 100% equity interest of the Target Company.

MARKET APPROACH — GUIDELINE COMPANY METHOD

One methodology employed in the market approach is the Guideline Company Method, where financial ratios of comparable companies were analyzed to determine a value for the subject company. This method employs market price data of stocks of corporations engaged in the same or a similar line of business as that of the subject company. Stocks of these corporations are actively traded in a public, free, and open market, either on an exchange or over-the-counter.

Identification of Comparable Companies

By using GCM, financial ratios of comparable companies are analyzed to determine a value for the subject business. This method also employs market price data of stocks of corporations engaged in the same or a similar line of business as that of the subject business. We searched comparable companies which have business natures and places of operation similar to that of Guangsha Medical from Bloomberg. Selection criteria of comparable companies are listed below:

(i) public companies listed in Hong Kong with principal place of operation in the PRC;

(ii) companies that are mainly engaged in provision of hospital service to not for profit hospitals.

Based on these criteria, we have identified and described below three comparable companies below:

1. China Resources Phoenix Healthcare Holdings Company Limited (1515 HK) owns and operates hospitals and clinics. The Company offers a range of healthcare services from primary preventive care to acute care and post-operative rehabilitation.

2. Hospital Corp of China Ltd. (3869 HK) is a hospital operation and management group. The Company consolidate medical resources to provide medical services and treatment of diseases.

3. Wenzhou Kangning Hospital Co., Ltd. (2120 HK) is a psychiatric health-care group. The Company operate and manage health-care facilities and hospitals throughout China.

Since size of the above sample is not large enough to provide a representative basis for application of guideline companies method, we expanded our search to for-profit hospitals and identified four additional guideline companies as below:

4. Harmonicare Medical Holdings Limited (1509 HK) is a private obstetrics and gynecology specialty hospital group in China. The Company's departments include ultrasound, radiology, laboratory and pharmacy. Harmonicare also offers dental care and medical aesthetic services.

5. New Century Healthcare Holding Co. Limited (1518 HK) operates as a holding company. The Company, through its subsidiaries, manages pediatrics, obstetrics, and gynecology hospitals throughout China.

6. Guangdong Kanghua Healthcare Co., Ltd. (3689 HK) owns and operates hospitals. The Company offers healthcare, cardiovascular related, and medical services. Guangdong Kanghua Healthcare serves patients in China.

7. Rici Healthcare Holdings Limited (1526 HK) operates private integrate health care hospitals. The Company provides high-end medicare, specialized hospital, physical examination, medical products supply, and other related services throughout China.

While market capitalizations of guideline companies range widely from RMB 1,553.82 million to RMB 10,648.55 million, we consider the selected guideline companies are fair and representative for the purpose of valuation of the Target Company because (1) we calculated correlation factor between market capitalization and normalized P/E of each guideline company and found that the correlation between these two factors was relatively weak (correlation factor~ - 0.23). Hence, we believed market capitalization may not be a significant factor that affects P/E multiple of China hospital operators. In addition, if market capitalization was used as a criterion in selection of comparable companies, sample size would reduce and the resulting multiples might be less representative; (2) if we assessed the impact of market capitalization on P/E multiples by dividing the comparable companies evenly into two groups: the first group (including 1515 HK, 1518 HK and 3689 HK) with market capitalization greater than RMB 3,000 million. (the "Larger Group"), and the second group (2120 HK, 1509 HK and 3869 HK) with market capitalization smaller than RMB 3,000 million (the "Smaller Group"), the average normalized P/E of the Larger Group and the Smaller Group was 22.6 times and 29.2 times, respectively. On this basis, the Target Company would fall into the Smaller Group because the estimated market value of its equity interest ranges from RMB 592 million to RMB 678 million. From this perspective, including multiples of comparable companies with larger market capitalization than the Target Company may result in a lower valuation multiple and a more prudent valuation conclusion for the Company as the purchaser in the proposed transaction.

We believe the guideline companies identified above is a fair and representative sample. To the best of our knowledge, this sample is full and exhaustive and was selected on our best effort and unbiased criteria based on search from Bloomberg. Based on discussion with the Management, although the selected guideline companies may differ in size, specialty, location as compared with Guangsha Medical, they believed a willing buyer and a willing seller would consider these selected guideline companies as fair and representative samples and referred to their trading multiplies in estimating values of companies in China hospital services sector.

Selection of Market Multiple

We calculated Price to net income ("P/E") multiples of the above seven comparable companies. The time periods for those earnings denominator of price multiples included the 2017 actual annual results. We believe that it is fair and reasonable to use 2017 financial projection and 2017 P/E multiple for assessing the value of the Guangsha Medical because (i) Guangsha Medical entered into Jinhua Hospital Management Agreement and started receiving management fee from Jinhua Hospital in 2017. Therefore, latest earning in 2017 should be the most relevant information that market participants consider in pricing Guangsha Medical and (ii) net income is a more direct economic measurement of earning attributable to Guangsha Medical as a hospital management services company and P/E multiple should be an appropriate matric for valuation of Guangsha Medical under guideline companies method.

2017 P/E multiples of guideline companies as of the Valuation Date and the multiple selected for the valuation of Guangsha Medical were as summarized below:

In RMB million unless stated otherwise	Market capitalization as of December 31, 2017 (A)	Cash, net of debt (B)	Net income for financial year ended December 31, 2017 (C)	Non-recurring expenses (note 1) (D)	Normalized earning (E)=(C)+(D)	Normalized P/E (A-B)/(E)
Wenzhou Kangning Hospital Co. Ltd. (2120 HK)	2,591.51	56.58	49.07	21.74	70.81	35.80
Harmonicare Medical Holdings Ltd. (1509 HK)	1,977.13	512.00	27.39	16.28	43.67	33.55
China Resources Phoenix Healthcare Holdings Co. Ltd. (1515 HK)	10,648.55	1,420.97	421.03	(0.89)	420.14	21.96
Hospital Corporation of China Ltd (3869 HK)	1,553.83	39.72	(13.75)	96.22	82.47	18.36
New Century Healthcare Holding Co. Ltd. (1518 HK)	4,052.75	763.66	73.49	35.68	109.17	30.13
Guangdong Kanghua Healthcare Co. Ltd. (3689 HK)	3,615.06	926.82	156.59	14.74	171.33	15.69
Rici Healthcare Holdings Ltd (1526 HK)	2,771.36	(0.22)	(62.17)	45.88	(16.29)	N/A
					Maximum	35.80
					Minimum	15.69
					Average	25.91
					Median	**26.04**

Sources: Bloomberg, guideline companies' public filing and Duff & Phelps's Analysis

Note:

1. Non-recurring expenses include listing expenses, exchange loss and professional service fees for acquisitions and share-based compensation expenses.

Equity Value of Guangsha Medical Indicated by the Guideline Company Method

We selected the median multiple and then multiplied it by net income of Guangsha Medical in 2017 to arrive at total equity value of Guangsha Medical on a non-marketable and controlling basis of RMB 787.703 million. Detailed computation was shown as below:

Selected Multiples	(a)	P/2017 Earning = 26.0x
Net Profit/Loss after Taxation of Guangsha Medical (Note 1)		RMB 25.295 million
Add back: One-off Expenses of Guangsha Medical (Note 2)		RMB 1.635 million
Equal to: Adjusted Net Income of Guangsha Medical in 2017	(b)	RMB 26.930 million
Indicated Value of 100% Equity Interest of Guangsha Medical on a marketable and non-controlling basis	(a)*(b)	RMB 700.180 million
Added: 25% control premium (Note 3)		RMB 175.045 million
Subtracted: 10% discount for lack of marketability (Note 3)		(RMB 87.523 million)
Indicated Value of 100% Equity Interest of Guangsha Medical on a non-marketable and controlling basis		RMB 787.703 million

Sources: the Management and Analysis of Duff & Phelps China

Note:

1. Net profit/loss after taxation of Guangsha Medical was based on Accountant's Report of the Target Group (Appendix II-39).

2. The one-off expenses represent the payment of professional service fees to the auditors in relation to the Proposed Acquisition, which could be referred to on page 29 of the circular.

3. For the basis of premium for control and discount for lack of marketability, please refer to "Additional Valuation Consideration" section.

MARKET APPROACH — GUIDELINE TRANSACTION METHOD

The Guideline Transaction Method employs the transaction price of corporations engaged in the same or a similar line of business as that of the subject company. Both the transaction consideration and the financial data of the transactions were analyzed to determine a value applicable to the subject company.

We identified ten transactions which were completed in the healthcare industry in China and collected transaction prices and earnings disclosed in public filing and announcements of relevant companies or observed and sourced from Mergermarket and Bloomberg based on the criteria below:

- The acquired companies are engaged in provision of hospital and clinical services in China;

- The acquisition transactions were completed in 2015 to first quarter of 2018. It was observed that, as a result of healthcare reform in China, an increasing number of China hospital operators pursued IPO in Hong Kong in recent three years For instance, among 7 identified comparable companies in China hospital sectors, 6 of them completed their IPO in recent three years. The increase in successful IPO, in turn, increases investors' interest and merger and acquisition activities in this sector. Therefore, we considered an observation period of 3 year should be reasonable in reflecting the impact of change in healthcare industry environment, trend of merger and acquisition activities and recent market sentiments on pricing of China hospital operators.

- There were publicly disclosed information regarding to revenue and net profit of the acquired companies; and
- Acquired interests were greater than 50%.

Key information of comparable transactions is summarized below:

	Acquired Companies	Acquirer	Consideration paid (RMB'million) (a)	% acquired (b)	Implied equity value (c)=(a)/(b)	Acquired Companies' earning (RMB' million) *(Note 1)* (d)	Transaction P/E multiple (c)/(d)
(1)	Jiande Hexu Enterprise Management Co. Ltd.	Hospital Corporation of China Limited (3869 HK)	483	70%	690	28.5	24.21
(2)	Etern Group Ltd. (investment company that holds 98% equity interest in Suzhou Yongding Hospital Company Limited)	China Automation Group Limited (569 HK)	675.6	60%	1,126	51.8	21.74
(3)	Jiangyin Baiyi Hospital Co. Ltd.	Yihua Healthcare Co Ltd (000150 CH).	112.2	51%	220	7.6	29.11
(4)	Sichuan Friendship Hospital Co. Ltd.	Masep Medical Science & Technology Development (Shenzhen) Co. Ltd. (Unlisted)	975	75%	1,300	39.6	32.85
(5)	Kaiyuan Central Hospital Co. Ltd.	Kangmei Pharmaceutical Co. Ltd. (600518 CH)	73.9	90%	81.9	2.2	36.42
(6)	Lu'an Development Zone Hospital	Zhongzhu Healthcare Holding Co. Ltd (600568 CH)	32.2	65%	49.5	0.9	57.97
(7)	Anqing Shihua Hospital	Jinling Pharmaceutical Co. Ltd, (000919 CH)	136.7	88%	155.8	2.9	54.25
(8)	Yugan County Chudong Hospital Co. Ltd.	Yihua Healthcare Co. Ltd (000150 CH).	284.9	60%	474.9	13.9	34.11
(9)	Hetian Xinsheng Hospital Co. Ltd.	Yihua Healthcare Co. Ltd (000150 CH).	79.6	51%	156	7.4	21.20
(10)	Xuancheng Eye Hospital Co. Ltd	Guangdong Zhongsheng Pharmaceutical Co. Ltd (002317 CH)	88.0	80%	110	1.9	57.36
						Maximum	57.97
						Minimum	21.20
						Average	36.92
						Median	**33.48**

Sources: Bloomberg L.P, Mergermarket, Capital IQ, announcement of the acquirers and analysis of Duff & Phelps China

Note:

1. Acquired Companies' earnings were based on the latest year earning prior to the year of acquisition or estimated earning in the same year of the acquisition.

Equity Value of Guangsha Medical Indicated by the Guideline Transaction Method

We selected the median multiple and then multiplied it by net income of Guangsha Medical in 2017 to arrive at total equity value of Guangsha Medical on a non-marketable and controlling basis of RMB 902.155 million. Detailed computation was shown as below:

Selected Multiple	P/2017 Earning = 33.5x
Adjusted Net Income of Guangsha Medical in 2017	RMB 26.930 million
Indicated Value of 100% Equity Interest of Guangsha Medical on a non-marketable and controlling basis	RMB902.155million

Equity Value of Oriental Ally Indicated by the Guideline Company and Guideline Transaction Methods

After deriving 100% equity interest of Guangsha Medical on a non-marketable and controlling basis, we computed the range of market value of 100% equity interest of Oriental Ally as following:

	GCM	**GTM**
	RMB' million	*RMB' million*
Market value of 100% equity interest of Guangsha Medical on non-marketable and controlling basis	787.703	902.155
Multiplied by shareholding percentage of 75%		
75% market value of equity interest of Guangsha Medical	590.777	676.616
Added cash balance of Impeccable Success and Oriental Ally	1.599	1.599
Market value of 100% equity interest of Oriental Ally (rounded to nearest million)	592	678

ADDITIONAL VALUATION CONSIDERATION

Premium for Control

Premium for control is the additional value inherent in the controlling interest, as contrasted to a minority interest that reflects the power of control. The thousands of daily transactions on stock exchanges are, of course, minority interest transactions. Each year, a controlling interest in a few hundred of these public companies is purchased at a price that is substantially higher than the published market price of the securities. The public markets provide information on control premiums through acquisition transactions. When a controlling interest in a publicly traded firm is acquired and taken private, the purchaser normally pays a premium above the freely traded, minority interest share price. The difference between the published price of the shares before their acquisition and the purchase price of the controlling interest is referred to as the control premium.

When valuing Guangsha Medical based on guideline companies' multiples, the level of value is presented on freely traded and non-controlling basis. A premium for control reflects the degree of control associated with a 75% interest in the shares of Guangsha Medical. To estimate the control premium applicable to Guangsha Medical, we relied on indications of control premiums from data on acquisition transactions in the healthcare industry over the past three years. As indicated by market data, a 25% control premium on equity interest level was considered to be appropriate.

Discount for Lack of Marketability ("DLOM")

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. However, the DLOM is applicable at business enterprise or equity level but not on individual assets level.

In this appraisal, the discount for lack of marketability was considered to be 10% based on option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the private held share can be sold, was considered as a basis to determine the lack of marketability discount. This option-pricing method is one of the methods commonly used in estimating DLOM as it can take into consideration factors like timing of liquidity event and estimated volatility of the shares of Guangsha Medical. The farther the valuation date is from an expected liquidity event, the higher the put option value and thus the higher the implied DLOM. DLOM is applicable to the results derived from guideline company method.

We considered DLOM of 10% should be fair and reasonable in the Valuation because (i) this was determined by put option pricing model, which was commonly used by valuation practitioners in quantifying DLOM; and (ii) the model takes into account industry specific factors, including volatility of companies in China hospital services sector and estimated time to complete the proposed transaction.

SENSITIVITY / SCENARIO ANALYSIS

As part of our valuation, a sensitivity analysis of value indication arrived at using the Market Approach was performed. We have tested sensitivity of 100% equity value in the Target Company to changes of liquidation event period.

Liquidation Event Period Sensitivity Analysis

Sensitivity of the value change was performed on every half-year change in liquidation event period applied in calculation of the adjustments on DLOM under Market Approach in a range from 10% to 20%. Liquidation event is commonly defined as a change or transfer in ownership an enterprise (for example, an IPO, merger, sale, change of control, sale of substantially all assets, or dissolution). In relation to this Valuation, liquidation event period represents the estimated time to complete this proposed acquisition. The following table summarized sensitivity analysis results:

Liquidation Event Period	DLOM Percentage	Range of Values of 100% Equity Interest in the Target Company (RMB'000)
0.5 year	10%	RMB 592,000 - RMB 678,000
1.0 year	11%	RMB 586,000 - RMB 678,000
1.5 year	13%	RMB 573,000 - RMB 678,000
2.0 year	14%	RMB 566,000 - RMB 678,000

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above, it is our opinion that the market value of 100% equity interest in Oriental Ally Holdings Limited as of the Valuation Date is reasonably stated in a range of RENMINBI FIVE HUNDRED AND NINETY TWO MILLION (RMB 592,000,000) and RENMINBI SIX HUNDRED AND SEVENTY EIGHT MILLION (RMB 678,000,000).

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We do not provide assurance on the achievability of any financial results estimated by Guangsha Medical and Oriental Ally because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of Management.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

Respectfully submitted,
For and on behalf of
D&P China (HK) Limited

Patrick Wu
Regional Managing Director

Kevin Leung
Managing Director

Note: This valuation was prepared under the direct supervision of Mr. Kevin Leung as project-leader-in-charge with substantial professional assistance from Ms. Julian Zhao and Ms. Jingyan Chen and concurring technical review by Mr. Ricky Lee, another Managing Director based in Hong Kong. The final conclusion was approved by Mr. Patrick Wu as regional managing director and practice leader of the firm's Greater China valuation advisory services.

Mr. Kevin Leung has been involved in business valuation for the purpose of joint venture, merger and acquisition and public listing for over 14 years. Mr. Leung has prior experience in conducting equity interest valuation to Hong Kong listed China based hospital companies. He is an Accredited Senior Appraiser of American Society of Appraisers, a fellow member of the Association of Chartered Certified Accountants and charterholder of the Chartered Financial Analyst.

Mr. Patrick Wu is responsible for the management and strategic development of the firm's Greater China operation which has offices in Hong Kong, Beijing, Shanghai, Guangzhou, and Shenzhen and Taipei. Mr. Wu was qualified as a lawyer and has served as an independence Non-Executive Director on the board of directors of a Hong Kong listed company. He is extensively involved in providing professional consulting services for a wide range of public organizations and business sectors, such as banking, business acquisitions, public listings, real estate and investment in Hong Kong and the PRC, professional development, quality assurance and business development.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS

At the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein, or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange were as follows:

Name of Director / chief executives	Number of Shares	Capacity/Nature of interests	Approximate percentage to the number of issued Shares (Note 3)
Zhao John Huan	123,000,000	Interest in controlled corporation (Note 1)	89.01%
	2,500,000	Deemed interest (Note 2)	1.81%
Liu Lu	9,098,000	Interest in controlled corporation (Note 3)	6.58%

Notes:

1. Including the long position in the Shares held by Zhao John Huan in respect of the convertible bonds for an aggregate principal amount of HK$468,000,000. For more details, please refer to the circular of the Company dated February 13, 2018.

2. The Shares held by Midpoint Honour Limited and pledged in favor of Hony Capital 2008 Management Limited.

3. Ms. Liu Lu is a general partner of Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業 (有限合夥)), which holds 50% interests in Anhui Zhong'an Health Investment Management Co., Ltd. (安徽中安健康投資管理有限公司). Anhui Zhong'an Health Investment Management Co., Ltd. is the general partner of Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) (安徽省中安健康養老服務產業投資合夥企業(有限合夥)), which is a limited partnership formed under the laws of the PRC as an investment vehicle and holds 6.58% interests in the Company.

4. At the Latest Practicable Date, the total number of issued Shares was 138,194,000.

Save as disclosed above, as of the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, none of the Directors or the chief executives of the Company had any interests or short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein, or (iii) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors, the interests or short positions of the persons (not being Directors or chief executives of the Company) in shares and underlying Shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and/or required to be entered into the register maintained by the Company pursuant to section 336 of the SFO were as follows:

Name of substantial Shareholder	Number of Shares	Capacity/Nature of interests	Approximate percentage to the number of issued Shares (Note 5)
Vanguard Glory Limited	123,000,000	Beneficial owner	89.01%
Hony Capital Fund V (Note 2)	123,000,000	Interest in controlled corporation	89.01%
Hony Capital Fund V GP, L.P. (Note 2)	123,000,000	Interest in controlled corporation	89.01%
Hony Capital Fund V GP Limited (Note 2) (Note 4)*	123,000,000	Interest in controlled corporation	89.01%
Hony Group Management Limited (Note 1) (Note 2)	125,500,000	Interest in controlled corporation; deemed interest	90.81%
Hony Managing Partners Limited (Note 1) (Note 2)	125,500,000	Interest in controlled corporation; deemed interest	90.81%
Exponential Fortune Group Limited (Note 1) (Note 2)	125,500,000	Interest in controlled corporation; deemed interest	90.81%

Name of substantial Shareholder	Number of Shares	Capacity/Nature of interests	Approximate percentage to the number of issued Shares(Note 5)
Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) (安徽省中安健康養老服務產業投資合夥企業(有限合夥))(Note 3)	9,098,800	Beneficial owner	6.58%
Anhui Zhong'an Health Investment Management Co., Ltd.(安徽中安健康投資管理有限公司)(Note 3)	9,098,800	Interest in controlled corporation	6.58%
Hefei Kangyang Capital Management Partnership (Limited Partnership)(合肥康養資本管理合夥企業(有限合夥)) (Note 3)	9,098,800	Interest in controlled corporation	6.58%
Anhui Investment Group Holdings Co., Ltd.(安徽省投資集團控股有限公司) (Note 3)	9,098,800	Interest in controlled corporation	6.58%
Mr. Niu Yang (Note 3)	9,098,800	Interest in controlled corporation	6.58%

Notes:

1. Aggregating the Shares held by Midpoint Honour Limited and pledged in favor of Hony Capital 2008 Management Limited.

2. Hony Capital Fund V is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Capital Fund V is Hony Capital Fund V GP, L.P., whose general partner is Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is wholly owned by Hony Group Management Limited, 80% share capital of which is held by Hony Managing Partners Limited, which in turn is wholly owned by Exponential Fortune Group Limited. Exponential Fortune Group Limited is held as to 49% by Mr. Zhao John Huan.

3. Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) is a limited partnership formed under the laws of the PRC as an investment vehicle. The general partner of Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) is Anhui Zhong'an Health Investment Management Co., Ltd. ("**Anhui Zhong'an**"). Anhui Zhong'an is jointly held as to 50% by Hefei Kangyang Capital Management Partnership (Limited Partnership) and as to 45% by Anhui Investment Group Holdings Co., Ltd.. Mr. Niu Yang is the general partner of Hefei Kangyang Capital Management Partnership (Limited Partnership).

4. As at the Latest Practicable Date, Mr. Zhao John Huan is the director of Hony Capital Fund V GP Limited.

5. As at the Latest Practicable Date, the total number of issued Shares was 138,194,000.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, the Company has not been notified by any persons (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Enlarged Group.

4. DIRECTORS' INTERESTS

(a) Save as disclosed above, as at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since December 31, 2017 (being the date to which the latest published audited financial statements of the Group were made up).

(b) Save as disclosed above, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, which was subsisting and was significant in relation to the business of the Enlarged Group.

(c) Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. EXPERTS AND CONSENTS

The following are the names and qualifications of the experts who have given opinions contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
Amasse Capital Limited	a licensed corporation under the SFO licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Duff & Phelps China	Valuation Advisors

PricewaterhouseCoopers, Amasse Capital and Duff & Phelps China have given and have not withdrawn their written consents to the issue of this circular with the inclusions of their reports and/or references to their names in the form and context in which they respectively appear.

6. EXPERTS' INTEREST

PricewaterhouseCoopers, Amasse Capital and Duff & Phelps China have confirmed that as at the Latest Practicable Date:

(a) they did not have any shareholding interest, whether direct or indirect, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and

(b) they did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since December 31, 2017 (being the date up to which the latest published audited consolidated financial statements of the Group were made).

7. SERVICE CONTRACTS

At the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with any member of the Enlarged Group which is not expiring or terminable by the employer within one year without payment of compensation other than statutory compensation.

8. MATERIAL LITIGATION

At the Latest Practicable Date, there was no litigation or claim of material importance that is known to the Directors to be pending or threatened against any member of the Enlarged Group.

9. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had any interest in any businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group.

10. MATERIAL CONTRACTS

The following contracts have been entered into by the Enlarged Group (not being a contract entered into in the ordinary course of business) within two years immediately preceding the date of this circular and is or may be material:

(a) an equity transfer agreement dated August 23, 2017, entered into among Shanghai Weikang Investment Management Co., Ltd.* (上海維康投資管理有限公司) ("**Shanghai Weikang**"), being a subsidiary owned indirectly as to 80% by the Company, as the seller, and Shanghai Hongfa Enterprise (Group) Co., Ltd.* (上海宏發企業(集團)有限公司) ("**Shanghai Hongfa**"), as the purchaser, pursuant to which the entire share capital in Shanghai Fuhua Hospital Co., Ltd.* (上海福華醫院有限公司) was disposed by Shanghai Weikang to Shanghai Hongfa for a total consideration of RMB43,000,000;

(b) a letter of intent dated August 10, 2017 entered into by, amongst others, the Company in respect of the acquisition of Jiande Hexu Enterprise Management Co., Ltd. (建德和煦企業管理有限公司), details of which were set out in the announcement of the Company dated August 10, 2017;

(c) a sale purchase agreement entered into between, amongst others, New Pride Holdings Limited (捷穎控股有限公司) ("**New Pride**"), Mr. Hong Jiangxin and Mr. Hong Yang on October 27, 2017 in relation to the sale and purchase of the entire share capital in Jiande Hexu Enterprise Management Co., Ltd. (建德和煦企業管理有限公司), for a total consideration of RMB483,000,000 ("**Sale Purchase Agreement**");

(d) a facility agreement dated December 11, 2017 entered into between the Company and China Merchants Bank Shanghai Zhangyang Branch for a loan amounting to HKD285,280,000, the proceeds of which will be used for the settlement of part of the consideration pursuant to the Sale Purchase Agreement;

(e) a letter of intent entered into between, amongst others, the Company and the relevant vendors, on December 28, 2017 in relation to the acquisition of Cixi, details of which were set out in the announcement of the Company dated December 28, 2017;

(f) an equity transfer agreement entered into between, amongst others, New Pride, Mi Yuehua and Chen Yuegen on February 8, 2018 in relation to the sale and purchase of the enter equity interest in Cixi at the consideration of RMB336 million;

(g) a subscription agreement dated January 25, 2018 entered into between the Company and Vanguard Glory Limited as subscriber for the subscription of convertible bonds to be issued by the Company in the aggregate principal amount of HK$468,000,000; and

(h) the Share Purchase Agreement.

11. GENERAL

(a) The registered office of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Suite 2701, One Exchange Square, Central, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretary of the Company is Ms. Kwong Yin Ping Yvonne, who has been a fellow of the Hong Kong Institute of Chartered Secretaries and a fellow of the Institute of Chartered Secretaries and Administrators since December 2012.

(e) This circular is in both English and Chinese. In the event of inconsistency, the English text shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at 37/F, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong from the date of this circular and up to and including the date which is 14 days from the date of this circular:

(a) the memorandum of association and articles of association of the Company;

(b) the accountant's report on the Target Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this circular;

(c) the report on the unaudited pro forma financial information of the Group and the Target Group, on a combined basis, from PricewaterhouseCoopers, the text of which is set out in Appendix III to this circular;

(d) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 49 to 74 of this circular;

(e) the written consent(s) referred to in the section headed "5. Experts and Consents" in this appendix;

(f) each of the material contracts referred to in the section headed "10. Material Contracts" in this appendix;

(g) the annual report of the Company for the year ended December 31, 2016;

(h) the annual report of the Company for the year ended December 31, 2017;

(i) Share Purchase Agreement;

(j) the JV Agreement;

(k) the Hospital Management Agreement 2017;

(l) the Hospital Management Letter of Intent;

(m) the hospital management letter of intent entered into between Guangsha Medical and Dongyang Hospital;

(n) the hospital management letter of intent entered into between Guangsha Medical and Yongkang Hospital;

(o) the equity transfer agreement dated February 8, 2018 in relation to the Cixi Acquisition;

(p) the Valuation Report;

(q) the circular of the Company published on February 12, 2018; and

(r) this circular.

弘和仁愛
HOSPITAL CORPORATION

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**EGM**") of Hospital Corporation of China Limited (the "**Company**") will be held at 1602, Tower B, Jin Qiu International Building, No. 6, Zhichun Road, Haidian District, Beijing, PRC at 10:00 a.m. on July 10, 2018, for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolution:

ORDINARY RESOLUTION

"THAT

(a) the share purchase agreement dated May 29, 2018 (the "**Share Purchase Agreement**") entered into between the Company and Hony Capital Fund VIII (Cayman), L.P. (the "**Vendor**") in relation to the acquisition of the entire issued share capital of Oriental Ally Holdings Limited (the "**Target Company**") which in turn holds 75% equity interests in Zhejiang Guangsha Medical Technology Co., Ltd* (浙江廣廈醫療科技有限公司) ("**Guangsha Medical**"), whereby the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the entire share capital in the Target Company (the "**Acquisition**"), a copy of which and the Company's circular dated June 24, 2018 (the "**Circular**") have been produced to the EGM, marked "A" and "B" respectively, and initialed by the Chairman of the EGM for the purpose of identification, be and are hereby approved, confirmed and ratified;

(b) an undertaking letter (the "**Undertaking Letter**") to be executed by the Company on or prior to the completion of the Share Purchase Agreement in favor of Hony Kangshou Management Consulting (Shanghai) Co., Ltd.* (弘毅康壽管理諮詢(上海)有限公司) ("**Kangshou**"), which holds the remaining 25% equity interests in Guangsha Medical, and Kangshou's shareholders, whereby the Company conditionally undertakes to purchase the remaining 25% equity interests in Guangsha Medical, a form of which has been produced to the EGM marked "C", and initialed by the Chairman of the EGM for the purpose of identification, be and is hereby approved and confirmed;

(c) subject to completion of the Acquisition and the terms and conditions of the Share Purchase Agreement, the issue of the Convertible Bonds (as defined in the Circular and the terms of which have been set out in the convertible bond instrument produced to the EGM marked

"D") is hereby approved and the directors of the Company be and are hereby granted a specific mandate to exercise powers of the Company to allot and issue such number of Conversion Shares (as defined in the Circular) as may be required to be alloted and issued upon exercise of the conversion rights attaching to the Convertible Bonds (as defined in the Circular) in accordance with the terms and conditions of the Convertible Bonds; and

(d) the directors of the Company be and are hereby authorised for and on behalf of the Company to do all such acts and things, to sign, and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as they consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Share Purchase Agreement, the Acquisition, the Undertaking Letter, the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds in accordance with the terms and conditions of the Convertible Bonds, and to agree to such variation, amendments or waivers or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the Share Purchase Agreement and the Undertaking Letter) as are, in the opinion of the directors of the Company, in the interest of the Company."

For and on behalf of the Board
Hospital Corporation of China Limited
弘和仁愛醫療集團有限公司
Zhao John Huan
Chairman

Beijing, China, June 24, 2018

Notes:

1. All resolutions at the EGM will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.

2. Any Shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote in his stead. A Shareholder who is the holder of two or more Shares in the Company may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a Shareholder of the Company.

3. In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders are present at the EGM, personally or by proxy, that one of the said persons so present whose name stands first in the register in respect of such Shares shall alone be entitled to vote in respect thereof.

4. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183

Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Delivery of any instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the EGM or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. Record date (being the last date of registration of any share transfer given there will be no book closure) for determining the entitlement of the shareholders of the Company to attend and vote at the EGM will be the close of business on Wednesday, July 4, 2018. All transfer of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, July 4, 2018.

* *For identification purpose only.*

As at the date of this notice, the directors of the Company are Mr. LU Wenzuo being the executive Director; 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.