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Hospital Corporation of China Limited
弘和仁愛醫療集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 3869)

**PROPOSED ISSUE OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE**

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MANDATE**

On December 21, 2018, the Company and the Subscriber entered into the Subscription Agreement pursuant to which, among other things, the Company agreed to issue and the Subscriber agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$800,000,000 for a total consideration equal to the aggregate principal amount of the Convertible Bonds. On the Closing Date, the Company shall issue Convertible Bonds and the Subscriber shall subscribe for the Convertible Bonds.

The details of the principal terms of the Convertible Bonds are set out in the paragraph headed “Principal Terms of the Convertible Bonds” below.

As at the date of this announcement, the Company has a total of 138,194,000 Shares in issue. Assuming there is no further issue or repurchase of the Shares, based on the initial Conversion Price of HK\$20.00 per Conversion Share and assuming full conversion of the Convertible Bonds at the initial Conversion Price, the Convertible Bonds will be convertible into 40,000,000 Conversion Shares, representing approximately 28.94% of the existing issued share capital of the Company as at the date of this announcement and approximately 22.45% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares. The Conversion Shares will be allotted and issued pursuant to the Specific Mandate subject to the Shareholders’ approval.

The net proceeds from the issue of the Convertible Bonds are estimated to be approximately HK\$798 million. The Company intends to apply all the net proceeds from the issue of the Convertible Bonds for future mergers and acquisitions purpose.

The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, the Subscription is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 13 of the Listing Rules. The Company will comply with the requirements under Chapter 13 of the Listing Rules in respect of the Subscription, including but not limited to seeking Shareholders' approval for the Subscription.

GENERAL

An EGM will be convened for the Shareholders to consider and, if thought fit, to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders are required to abstain from voting on the resolutions to approve the Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate.

A circular is expected to be despatched by the Company to the Shareholders as soon as practicable containing, among other things, (i) further information on the Subscription Agreement, the Convertible Bonds Instrument and the transactions contemplated thereunder; (ii) the Specific Mandate; and (iii) a notice of the EGM.

Closing is subject to the fulfillment (or waiver, if applicable) of the Conditions Precedent. As the issue of the Convertible Bonds may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

THE SUBSCRIPTION AGREEMENT

On December 21, 2018, the Company entered into the Subscription Agreement with the Subscriber pursuant to which, among other things, the Company agreed to issue, and the Subscriber agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$800,000,000 for a total consideration equal to the aggregate principal amount of the Convertible Bonds.

Principal Terms of the Subscription Agreement

The summary of the principal terms of the Subscription Agreement is set out below:

Date : December 21, 2018 (after trading hours)

Parties : (a) the Company; and
(b) the Subscriber.

Subscription : Subject to the fulfillment or, if applicable, waiver of the Conditions Precedent set out below, the Subscriber shall subscribe for, and the Company shall issue, the Convertible Bonds in the aggregate principal amount of HK\$800,000,000.

Conditions Precedent : The obligations of the Company to issue and the Subscriber to subscribe for the Convertible Bonds in accordance with the Subscription Agreement are subject to the following Conditions Precedent being satisfied (or, other than A to D set out in the following Conditions Precedent, waived by the Subscriber):

- A. the Stock Exchange having approved any circular in relation to the issue of the Convertible Bonds, and Legend Holdings having issued an announcement concerning the Subscription as required under the Listing Rules;
- B. the Listing Committee of the Stock Exchange having approved the listing of, and granted permission to deal in, the Conversion Shares;

- C. the Company having passed all necessary resolutions required under the Articles and the Listing Rules to issue the Convertible Bonds subscribed for under the Subscription Agreement to the Subscriber, and the Shareholders having approved the Subscription at the EGM;
- D. the Subscriber and Legend Holdings having obtained required internal approvals concerning the Subscription as required under their articles of association and the Listing Rules;
- E. the due execution of the MOUs by the relevant parties thereunder;
- F. (i) the listing position of the Shares has not been cancelled; (ii) the Shares being traded at the Stock Exchange for five (5) consecutive days prior to the Closing, except for trading halt for less than five (5) consecutive days or other period as determined by the Subscriber in writing, or other period of trading halt as a result of any transactions contemplated under the Subscription Agreement; and (iii) no indication has been received prior to the Closing Date from the Stock Exchange or the Securities and Futures Commission in Hong Kong that they will oppose to the continuous listing status of the Shares for reasons regarding or in relation to the transactions contemplated under the Subscription Agreement;
- G. no material adverse effect having occurred to the business, financial condition, prospect, operations or a significant portion of the property or assets of the Group;
- H. the representations and warranties of the Company and the Subscriber as set out under the Subscription Agreement being true, accurate and not misleading as of the date of the Subscription Agreement and the Closing Date;

- I. the Company and the Subscriber having performed or complied with all agreements, obligations and conditions required by the Subscription Agreement to be performed or complied with by it on or before the Closing Date; and
- J. all approval and consent from the government, regulatory authorities (including but not limited to the Stock Exchange), banks, other parties to the Subscription Agreement and/or any other parties that is necessary under the Subscription Agreement and the transactions contemplated thereunder have been obtained.

The Company and the Subscriber shall fulfill all Conditions Precedent in their commercial endeavors before the Long Stop Date under reasonable circumstances.

If any Conditions Precedent have not been satisfied or, if applicable, waived by the Company or the Subscriber (as the case may be) on or prior to the Long Stop Date or on such other date as the parties may agree in writing, the Subscription Agreement (other than the surviving provisions under the Subscription Agreement) may be terminated by either party in writing.

Closing

: Closing will take place on the fifth (5th) Business Day following the date on which all Conditions Precedent have been satisfied or, if applicable, waived by the Company or the Subscriber (as the case maybe), or on such other date as the parties may agree in writing. On the Closing Date and at the time and venue mutually agreed by the parties in writing, the Company shall issue the Convertible Bonds and the Subscriber shall subscribe for the Convertible Bonds.

If the Company or the Subscriber has not fulfilled their obligations in any aspect on the Closing Date, the non-defaulting party may:

- (a) postpone Closing for no more than 28 days after the Closing Date; or

(b) rescind the Subscription Agreement without being liable to the defaulting party.

Termination of the Subscription Agreement : The Subscription Agreement may be terminated as follows by written notice:

- (a) by mutual written consent of the parties;
- (b) by any party if the other party shall have materially breached any provisions in the Subscription Agreement, and such breach has not been waived; or
- (c) by any party if the fulfillment of any Conditions Precedent is or becomes impossible, and the party who is entitled to waive such Condition Precedent has not done so.

Right of First Subscription and Anti-dilution Right : In the event that the Company wishes to issue new Shares (the “**Offer Shares**”) to any third party at a certain price (the “**Offer Price**”), the Subscriber shall have (a) the right to subscribe all such Offer Shares on the same terms offered to the third party (the “**Right of First Subscription**”); or (b) the right to subscribe for new Shares at the Offer Price up to the number of Shares which can maintain the Subscriber’s shareholding in the Company on an as-converted and fully-diluted basis after the issuance of Offer Shares on the Closing Date (the “**Anti-Dilution Right**”), provided that the Subscriber directly or indirectly holds not less than 5% of the Company’s total issued share capital on an as-converted and fully-diluted basis.

In the event that the Right of First Subscription and the Anti-Dilution Right of the Subscriber terminate, or the subscription upon exercise by the Subscriber of the Right of First Subscription or the Anti-Dilution Right (as the case may be) fails to be completed within the prescribed period, or upon occurrence of other prescribed events, the Company may issue the Offer Shares to a third party of its choice at a price not less than the Offer Price and on terms substantially equivalent to those upon which the Offer Shares were initially to be issued.

For the purpose of the Right of First Subscription and the Anti-Dilution Right, Offer Shares do not include certain issuance of securities by the Company, such as conversion shares issued by the Company upon conversion of its existing convertible bonds, share options or Shares issued under the Company's employee incentive schemes, Shares issued as a dividend or other distribution by the Company, and Shares issued for the purpose of pro-rata adjustment in the event of Shares subdivision or capital adjustment of the Company.

Nomination Right : Upon Closing, the Subscriber shall be entitled to nominate one qualified person as the director of the Company.

Indemnity : The Subscriber and the Company shall indemnify and keep indemnified the other party against any loss, liability, damages, costs or expenses (including legal expenses) suffered or incurred by the other party as a result of or in connection with any breach of the terms of the Subscription Agreement (including but not limited to any representations, warranties and undertakings set out in the Subscription Agreement).

Specific Mandate

The Conversion Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Shareholders at the EGM. The Specific Mandate will be valid from the date of passing of the relevant resolutions at the EGM to the fifth (5th) Business Day after the Long Stop Date, and will cease to be effective if any Conditions Precedent has not been satisfied or, if applicable, waived by the Company or the Subscriber (as the case may be) on or prior to the Long Stop Date 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.

Closing is subject to the fulfillment (or waiver, if applicable) of the Conditions Precedent. As the issue of the Convertible Bonds may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The principal terms of the Convertible Bonds are set out below:

- Issuer** : The Company
- Principal Amount** : HK\$800,000,000
- Issue Price** : 100% of the principal amount
- Form and Denomination** : Convertible Bonds are issued in registered form in the denomination of HK\$1.00 each.
- 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.
- Conversion Rights** : Subject to the restrictions set out below, Bondholder shall have the right to convert the Convertible Bonds held by him/her into Shares at any time on or after the end of sixth (6th) months after the Closing Date up to the Maturity Date at the discretion of such Bondholder.
- Restriction on Conversion** : No conversion of the Convertible Bonds shall take place if and to the extent that, immediately following such conversion, the Company would be in breach of its obligations under the minimum Public Float requirement under the Listing Rules.
- 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 capitalization of profits or reserves of the Company;

- (c) a capital distribution made to the Shareholders (except where the Conversion Price falls to be adjusted under (b) above);
- (d) any dividend or distribution, whether of cash, assets or other property to the Shareholders;
- (e) an issue of Shares by way of rights, or issue or grant of any options, warrants or other rights to subscribe for or purchase any Shares;
- (f) an issue of other securities by way of rights, or issue or grant of any options, warrants or other rights to subscribe for or purchase or otherwise acquire any securities;
- (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 existing securities so that the consideration per Share is less than 95% of the current market price;
- (h) other offers 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 including, but not limited to, circumstances that 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.

**Redemption
Rights of the
Subscriber**

: On the Maturity Date, the Company shall redeem in whole the Convertible Bonds with redemption amount calculated in accordance with the following formula:

Redemption amount = principal amount of outstanding Convertible Bonds + principal amount of outstanding Convertible Bonds \times 6% \times 5.

Upon occurrence of any of the following events: (a) there is a change of control in the Company (except for a change of control in the Company due to conversion of the Convertible Bonds or the subscription of issued Shares of the Company by Bondholder and/or any person acting in concert with such Bondholder) or (b) the Shares cease to be listed or admitted to trading on the Stock Exchange, each Bondholder shall have the right to require the Company to redeem in whole, within a specified period, such Bondholder's Convertible Bonds at the outstanding principal amount of the Convertible Bonds plus 6% per annum simple interest accrued (calculated on the basis of 360 days per year).

The outstanding Convertible Bonds may be redeemed in whole by the Company prior to the Maturity Date at the outstanding principal amount of such Convertible Bonds plus 6% per annum simple interest accrued, if both the Company and the Bondholder have mutual prior written consent to do so.

Default Interests : In the event that the Company fails to pay any sum upon such sum being due and payable, the Company shall be liable for the outstanding sum plus 5% per annum default interest accrued from the date on which such sum being due and payable to the date on which the full amount of such sum has been duly paid by the Company (calculated on the basis of 360 days per year).

Transferability : The Convertible Bonds shall be assigned or transferred with prior written consent of the Company, save where such transfer is made to an Affiliate of the Subscriber. 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 Subscriber, any other person directly or indirectly controlling or controlled by or under direct or indirect common control with the Subscriber.

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 holders of the Convertible Bonds. 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 holders of the Convertible Bonds.

Conversion Price

The initial Conversion Price is HK\$20.00 per Conversion Share (subject to adjustments as set out above in the paragraph headed “Adjustments to Conversion Price”). This represents:

- (a) a premium of approximately 13.122% over the closing price of HK\$17.68 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 12.170% over the average closing price of approximately HK\$17.83 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 11.857% over the average closing price of approximately HK\$17.88 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 17.440% over the average closing price of approximately HK\$17.03 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; and
- (e) a premium of approximately 56.006% over the unaudited consolidated net assets per Share of approximately HK\$12.82 as at June 30, 2018 (calculated by dividing the Group’s unaudited consolidated net assets attributable to the Shareholders of approximately RMB1,560.13 million (approximately HK\$1,771.53 million) as at June 30, 2018 by 138,194,000 Shares in issue as at the date of this announcement).

The Conversion Price was determined after arm's length negotiations between the Company and the Subscriber with reference to a number of factors, including, among other things, the recent trading price and trading volume of the Shares on the Stock Exchange, the assets, liabilities, financial performance and business condition of the Company, as well as similar transactions entered into by the Company in the past. When determining the Conversion Price, the Company also considered the future prospects of the Company, including the expected growth in its profitability by entering into further acquisitions and development (including the Potential Acquisitions (as defined below)) and the estimated price performance of its Shares. In addition, the Company further considered the factors disclosed in the section headed "Reasons for and Benefits of Entering into the Subscription Agreement and Use of Proceeds" below.

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.

Conversion Shares

Based on the initial Conversion Price of HK\$20.00 per Conversion Share and assuming full conversion of the Convertible Bonds at the initial Conversion Price, the Convertible Bonds will be convertible into 40,000,000 Conversion Shares, which represents (i) approximately 28.94% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 22.45% 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, assuming there is no further issue or repurchase of the Shares.

The allotment and issuance of the Conversion Shares are subject to the granting of the Specific Mandate by the 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.

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.

PRINCIPAL TERMS OF THE MOUS

The summary of the principal terms of the MOUs is set out below:

MOU between the Subscriber, Vanguard Glory, Hony Fund V and the Company

- Parties** : (a) the Subscriber;
- (b) Vanguard Glory;
- (c) Hony Fund V; and
- (d) the Company.
- Right of First Refusal** : In the event where the Vanguard Glory proposes to transfer any of its Shares or VG Convertible Bonds to a third party, or Hony Fund V proposes to transfer any of its shares in Vanguard Glory to a third party while maintaining its control over Vanguard Glory, all of the Shares, VG Convertible Bonds or shares in Vanguard Glory that are proposed to be transferred should be first offered to the Subscriber on the same terms and conditions as would be offered to the third party purchaser (the “**Right of First Refusal**”).
- Undertakings** : (a) The Company, Vanguard Glory and Hony Fund V undertake to procure the appointment of the person nominated by the Subscriber as director of the Company.
- (b) The Company, Vanguard Glory and Hony Fund V undertake that they shall act in their best endeavor to facilitate the Subscriber in exercising the Right of First Refusal, including but not limited to giving necessary approval or consent to the transfer of VG Convertible Bonds, updating its register of Bondholders and register of members.
- Termination** : The MOU shall terminate under the following circumstances:
- (a) the Shares held by the Subscriber on an as-converted and fully-diluted basis account for less than 5% of the total issued share capital of the Company;
- (b) by mutual written consent of the parties; or

- (c) breach by any of the parties of its representations, warranties or undertakings under the MOU.

MOU between the Subscriber, Hony Capital Fund VIII (Cayman), L.P. and the Company

- Parties** : (a) the Subscriber;
- (b) Hony Capital Fund VIII (Cayman), L.P.; and
- (c) the Company.
- Right of First Refusal** : In the event where the Hony Capital Fund VIII (Cayman), L.P. proposes to transfer any of its Hony Fund VIII Convertible Bonds or Hony Fund VIII Conversion Shares to a third party, all of the Hony Fund VIII Convertible Bonds or Hony Fund VIII Conversion Shares that are proposed to be transferred should be first offered to the Subscriber on the same terms and conditions as would be offered to the third party purchaser (the “**Right of First Refusal**”).
- Undertaking** : The Company undertakes that it shall act in its best endeavor to facilitate the Subscriber in exercising the Right of First Refusal, including but not limited to giving necessary approval or consent to the transfer of Hony Fund VIII Convertible Bonds, updating its register of Bondholders and register of members.
- Termination** : The MOU shall terminate under the following circumstances:
- (a) the Shares held by the Subscriber on an as-converted and fully-diluted basis account for less than 5% of the total issued share capital of the Company;
 - (b) by mutual written consent of the parties; or
 - (c) breach by any of the parties of its representations, warranties or undertakings under the MOU.

INFORMATION ON THE GROUP

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

INFORMATION ON THE SUBSCRIBER AND LEGEND HOLDINGS

The Subscriber is a company incorporated in the British Virgin Islands limited by shares and is a wholly-owned subsidiary of Legend Holdings. Its principal business activities are investment holdings.

Legend Holdings was incorporated in the People's Republic of China as a joint-stock company with limited liability, the H shares of which have been listed on the Stock Exchange since June 29, 2015 (stock code: 3396). Legend Holdings is a leading diversified investment holding group in China and has developed an innovative, two-wheel-drive business model "strategic investments + financial investments". Its strategic investments business diversifies into five segments: IT, financial services, innovative consumption and services, agriculture and food and advanced manufacturing and professional services. Its financial investments business primarily consists of angel investments, venture capital investments, private equity investments and other investments which cover all stages of a company's life cycle.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUBSCRIPTION AGREEMENT AND USE OF PROCEEDS

The Group is principally engaged in hospital management business and general hospital business in China. With China's deepening reform efforts in the healthcare service industry, the Company has been constantly seeking sound investment opportunities to manage or own hospitals and to establish a nationwide replicable business model to achieve synergies between the Group's management and investment expertise, as well as the professional and management team that has been operating the hospitals by optimizing the management and medical resources through exchange and communication between hospitals managed or owned by the Group, and providing sufficient support and necessary investment strategies to enhance the hospital's operations.

In the future, the Group's business plan will continue to focus on Class II and Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale that have demonstrated outstanding performances in advanced and specialized services and are located in areas with large population and good economic condition.

In implementing this strategy and the above-mentioned business plan, the Company has been constantly conducting market research and potential target analyses, and proactively searching for and reviewing potential target hospitals for acquisitions or management arrangements. As at the date of this announcement, the Company has identified several potential acquisition targets, including hospitals located in Beijing and the Jiangsu province (the “**Hospital Acquisitions**”) , as well as the equity interest held by minority shareholders in Jiande Hospital of Traditional Chinese Medicine Co., Ltd., Zhejiang Dajia Medicines Co., Ltd., Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. and Cixi Honghe Medical Management Co., Ltd. (the “**Minority Shareholding Acquisitions**”, together with the “**Hospital Acquisitions**”, the “**Potential Acquisitions**”). The Company expects to enter into all or some of the Potential Acquisitions in the second quarter of 2019.

Since its listing, the Company has completed acquisitions at a total consideration of around RMB1,449 million, of which approximately RMB819 million was paid by cash and RMB630 million was settled by way of issuance of convertible bonds, and in accordance with the interim report of the Company for the six (6) months ended June 30, 2018, the Company had cash and cash equivalents of RMB264,805,000 as at June 30, 2018. As such, the Company will require more cash for the Potential Acquisitions and other future acquisitions. Given the need for a substantial amount of funds for future acquisitions, the Directors consider that the Company should increase its funding available for future acquisitions. The gross proceeds from the Subscription are approximately HK\$800,000,000 and the estimated net proceeds from the issue of the Convertible Bonds (after deduction of expenses) will be approximately HK\$798 million. On such basis, the estimated net price for each Conversion Share will be approximately HK\$19.95. The Company intends to apply all the net proceeds from the issue of the Convertible Bonds as to (i) approximately 60% for financing the Hospital Acquisitions, and (ii) approximately 40% for financing the Minority Shareholding Acquisitions. In the event that none of the Potential Acquisitions materializes, the Directors consider that the Company should still get sufficient amount of cash standing by as the Company intends to conduct acquisitions of hospital businesses or hospital management businesses in accordance with its expansion strategy and business development plan when appropriate opportunities arise. The Company will use the proceeds from the Subscription for other appropriate acquisition opportunities if none of the Potential Acquisitions materializes.

Legend Holdings has been introduced to the Company. As elaborated in the above section “Information on the Subscriber and Legend Holdings”, Legend Holdings has developed a unique and two-wheel-driven synergy business model “strategic investments + financial investments” to invest in, establish and manage portfolio companies with high potential through value development and discovery. The Board believes that the Company will benefit from the introduction of Legend Holdings as a strategic investor for the following reasons:

- (a) **Extensive industry experience and network.** As a leading investment holding conglomerate in China, Legend Holdings has extensive experience and resources in strategic investments in a number of different business sectors, including exposure in the industry of healthcare and hospital services. With such extensive industry experience and network, Legend Holdings can provide effective support to the Company in sourcing deals.
- (b) **Brand and reputation endorsement:** Legend Holdings has a well-established, highly-influential and reputable brand that has gained trust and confidence within China. To the employees, Legend Holdings is an outstanding employer. To the customers, Legend Holdings is reliable and trustworthy. To the Chinese government and public hospitals at different levels, Legend Holdings has a positive reputation and image. As such, Legend Holdings’ positive and reliable reputation will facilitate the Company to obtain support from financial institutions and government authorities within China. The Company can build on Legend Holdings’ well-established reputation to gain confidence and trust among its customers, employees and local governments, and to endorse its brand and goodwill.
- (c) **Long-term investment strategy:** With strong capital strength, Legend Holdings does not invest for the purpose of short-term profits and returns. Legend Holdings’ investment purpose particularly matches with the pace and the need of the Company and the healthcare industry, which involves a long-term cycle and requires a stable return.
- (d) **Government resources and connections:** Legend Holdings is a highly-reputable company in China, which has established good and close connections with numerous local governments across the entire China. Such well-established connections can assist the development of the Company and its hospitals within China, and the Company can also take advantage of such connections to utilize resources of the local governments.

- (e) **Management support:** Legend Holdings, as a richly cultivated strategic investor and an industrialist in China, has already developed extensive experience in management in various industries over the past 30 years and established unique management theories. In particular, Legend Holdings has also developed its knowledge and experience in the infrastructure and system of the healthcare and medical industry. As such, Legend Holdings will be able to provide value-added service, constructive advice and effective support to the Company in terms of hospital operations, financial and human resources management and IT infrastructure construction.
- (f) **Strong synergy:** Legend Holdings' group has various healthcare-related upstream and downstream companies, which will achieve synergy when the Company cooperates with such companies and fully utilize their resources.

The Company believes that it is in the best interests of the Company to enter into the issue of the Convertible Bonds to Legend Holdings. The current structure of the Convertible Bonds will provide the Company with access to immediately available cash and with minimal financing costs. In addition, with such substantial amount of cash standing by, the Company will be more flexible and competitive in negotiating future acquisitions against other competitors, and in investing in more reputable hospitals in China. Sufficient financial resources allows the Company to adopt more flexible settlement method, payment schedule and deal structure in the potential acquisitions, which provides an advantage for the Company during negotiation process. As such, the Directors are of the view that the issue of the Convertible Bonds represents a good opportunity for the Company to raise a substantial amount of funds for its current and future acquisitions with no immediate cost impact and will facilitate the Company to better structure its acquisitions in a more efficient and cost effective way. The Company believes it would be able to identify other appropriate investment and acquisition opportunities from the other target hospitals which they have been searching for even if none of the Potential Acquisitions materializes.

Further, the Company has explored various alternative fund raising methods, which include other equity financing methods (such as placing of new shares and rights issue) and bank borrowings. The Company conducted a preliminary market research on the commercial terms of private placements and rights issues made by Hong Kong listed companies and also consulted some investment banks on convertible bond placement's possibility and key terms. The Directors consider that (i) as compared with placing of new shares, issue of convertible bonds does not have an immediate dilution effect on existing Shareholders, and it is expected that the likely increase in the valuation of the Company and total value of the Shares resulting from the future acquisitions and developments would offset any such dilution effect; (ii) under the current market conditions, the terms of placing of new shares, including the issue

price, will not be better than or even comparable to, the terms of the Convertible Bonds, and moreover, the Company will incur higher costs, including underwriting fee or commission, for placing of new shares or rights issue; (iii) a rights issue involves a comparatively lengthy process comparing to issuing convertible bonds taking in account the time for identifying suitable underwriter(s), negotiating the underwriting terms agreeable to all parties and preparing the requisite compliance and legal documentations; (iv) raising bank borrowings of such a large amount is considered to be not feasible under the current volatile financial market conditions; and (v) bank borrowings will not improve the financial position of the Company but will incur higher financing costs and will possibly subject the Company to fluctuating interest burden.

Having considered all the relevant factors and in light of the reasons and benefits as set out above, the Directors consider that the Subscription Agreement was entered into on normal commercial terms following arm's length negotiations between the Company and the Subscriber, and the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

If the Company identifies any other appropriate acquisition opportunities and all the net proceeds generated from the Subscription have been utilized, the Company will consider bank financing and equity fund raising activities, subject to the borrowing costs and the cash position of the Company. However, as at the date of this announcement, the Company does not have any concrete plan, expected terms, amount, or timing for any equity fund raising activities in the next 12 months.

CHANGES IN SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has 138,194,000 Shares in issue. The following table depicts the effects of the issue of the Conversion Shares on the shareholding structure of the Company (i) as at the date of this announcement, (ii) immediately after the Subscription and assuming full conversion of the Convertible Bonds at the initial Conversion Price (assuming there is no further issue or repurchase of the Shares), and (iii) immediately after the Subscription and assuming

full conversion of the Convertible Bonds at the initial Conversion Price to the extent that immediately after such conversion, the Company will continue to be able to satisfy the Public Float requirement (assuming there is no further issue or repurchase of the Shares):

Name of Shareholders	As at the date of this announcement		Immediately after the Subscription and assuming full conversion of the Convertible Bonds at the initial Conversion price ¹		Immediately after the Subscription and assuming full conversion of the Convertible Bonds at the initial Conversion Price to the extent that immediately after such conversion, the Company will continue to be able to satisfy the Public Float requirement	
	Number of Shares	Approximate % of issued share capital of the Company	Number of Shares	Approximate % of issued share capital of the Company	Number of Shares	Approximate % of issued share capital of the Company
Vanguard Glory Limited	97,000,000	70.19	97,000,000	54.44	97,000,000	63.17
Midpoint Honour ²	2,860,000	2.07	2,860,000	1.60	2,860,000	1.86
The Subscriber	0	0.00	40,000,000	22.45	15,354,800	9.99
Other Public Shareholders	<u>38,334,000</u>	<u>27.74</u>	<u>38,334,000</u>	<u>21.51</u>	<u>38,334,000</u>	<u>24.97</u>
Total	<u>138,194,000</u>	<u>100.00</u>	<u>178,194,000</u>	<u>100.00</u>	<u>153,548,800</u>	<u>100.00</u>

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 Rights 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.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not conducted any other equity fund raising activities in the past twelve months immediately preceding the date of this announcement:

Date of first announcement	Fund raising activities	Net proceeds raised (approximate)	Intended use of proceeds as announced	Actual use of proceeds
January 25, 2018	Issuance of convertible bonds in an aggregate principal amount of HK\$468,000,000	HK\$467,000,000	i. Approximately HK\$211 million for financing the acquisition of a hospital management company located in Cixi, Zhejiang Province (the “ Cixi Acquisition ”); and ii. approximately HK\$256 million for financing the potential acquisition of a hospital management company in Guangzhou city.	In order to improve the efficiency of capital use, approximately HK\$415.5 million was utilized in the Cixi Acquisition, which was completed in March 2018; and the balance is expected to be used in the Potential Acquisitions, or in other acquisitions of hospitals or hospital management businesses by the Group, in case the Potential Acquisitions will not proceed.

As disclosed above, the Company already intends to use the remaining balance of the proceeds generated from the issuance of convertible bonds in January 2018 for the Potential Acquisitions and other future acquisitions. However, given the need for a substantial amount of funds for the Potential Acquisitions and other future acquisitions, the Board is of the view that the Subscription is in the best interest of the Company and its Shareholders as a whole.

SPECIFIC MANDATE

The Company will seek the grant of the Specific Mandate from the Shareholders at the EGM to allot and issue the Conversion Shares. Based on the initial Conversion Price of HK\$20.00 per Conversion Share and assuming full conversion of the Convertible Bonds at the initial Conversion Price under the Subscription Agreement, the Convertible Bonds will be convertible into 40,000,000 Conversion Shares, representing approximately 28.94% of the issued share capital of the Company as at the date of this announcement and approximately 22.45% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares, assuming there is no further issue or repurchase of the Shares.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, the Subscription is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 13 of the Listing Rules. The Company will comply with the requirements under Chapter 13 of the Listing Rules in respect of the Subscription, including but not limited to seeking Shareholders' approval for the Subscription.

Mr. Zhao John Huan, the Chairman and a non-executive director of the Company is also an executive director of Legend Holdings. Mr. Zhao is deemed to have material interest in the Subscription, and had abstained from voting on the relevant board resolutions approving the Subscription.

GENERAL

EGM

An EGM will be convened for the Shareholders to consider and, if thought fit, to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder is required to abstain from voting on the resolutions to approve the Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate at the EGM.

Despatch of Circular

A circular is expected to be despatched by the Company to the Shareholders as soon as practicable containing, among other things, (i) further information on the Subscription Agreement, the Convertible Bond Instrument and the transactions contemplated thereunder; (ii) the Specific Mandate; and (iii) a notice of the EGM.

DEFINITIONS

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

“Articles”	the memorandum and articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholder(s) ”	at any time the person who is (are) for the time being the registered 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
“Closing”	the completion of the Subscription in accordance with the terms of the Subscription Agreement
“Closing Date”	the date of Closing
“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)
“Condition(s) Precedent”	each of the conditions precedent as set out in the paragraph headed “Conditions Precedent” above
“connected person(s)”, “subsidiary(ies)”	each has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed thereto in the Listing Rules and, unless the context otherwise requires, refers to Vanguard Glory, Hony Fund V, Hony Capital Fund V GP, L.P., and Hony Capital Fund V GP Limited
“Conversion Price”	the price at which Conversion Shares will be issued upon conversion of the Convertible Bonds, as more particularly described in the paragraph “Conversion Price” of this announcement

“Conversion Rights”	the right of a Bondholder to convert any Convertible Bonds into Shares, as more particularly described in the paragraph “Conversion Rights” of this announcement
“Conversion Share(s)”	the Share(s) to be allotted and issued by the Company upon conversion of the Convertible Bonds, as more particularly described in the paragraph “Conversion Shares” of this announcement
“Convertible Bond(s)”	the convertible bond(s) with an aggregate principal amount of HK\$800,000,000 to be issued by the Company pursuant to the Subscription Agreement
“Convertible Bond Instrument”	the convertible bond instrument to be entered into between the Company for the issue by the Company of the Convertible Bonds
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the Specific Mandate
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hony Fund V”	Hony Capital Fund V, L.P., an exempted limited partnership formed in the Cayman Islands on August 10, 2011, and being a Controlling Shareholder
“Hony Fund VIII Conversion Share(s)”	the Share(s) to be allotted and issued by the Company upon conversion of the Hony Fund VIII Convertible Bonds
“Hony Fund VIII Convertible Bond(s)”	the convertible bond(s) with an aggregate principal amount of HK\$773,879,717 issued by the Company to Hony Capital Fund VIII (Cayman), L.P. on August 7, 2018

“Last Trading Day”	December 20, 2018, being the last full Trading Day immediately prior to the date of this announcement
“Legend Holdings”	Legend Holdings Corporation (聯想控股股份有限公司), a company incorporated in the People’s Republic of China as a joint-stock company with limited liability, the H shares of which are listed on the Stock Exchange (stock code: 3396)
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	the end of six (6) months after the date of the Subscription Agreement
“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 held as to 83.33% by Mr. Zhang Xiaopeng, a former director of the Company
“MOU(s)”	Memoranda of understanding to be entered into between (1) Hony Fund V, Vanguard Glory, the Subscriber and the Company; and (2) the Subscriber, Hony Capital Fund VIII (Cayman), L.P. and the Company
“PRC” or “China”	The People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)

“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 taking 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
“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 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
“Subscriber”	Leap Wave Limited (立濤有限公司), a company incorporated in the British Virgin Islands limited by shares, a wholly-owned subsidiary of Legend Holdings
“Subscription”	the subscription of the Convertible Bonds by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated December 21, 2018 entered into between the Company and the Subscriber for the subscription by the Subscriber of the Convertible Bonds
“Trading Day”	a day on which trading of the Shares is conducted on the Stock Exchange in accordance with the rules and regulations of the Stock Exchange promulgated from time to time

“Vanguard Glory”	Vanguard Glory Limited (譽鋒有限公司), 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 date of this announcement, being an intermediate holding company of the Company and a Controlling Shareholder
“VG Convertible Bond(s)”	the convertible bond(s) with an aggregate principal amount of HK\$468,000,000 issued by the Company to Vanguard Glory on March 5, 2018
“%”	per cent

In this announcement, amounts in US\$ have been converted into HK\$ at the rate of US\$1.00: HK\$7.8139, and amounts in RMB have been converted into HK\$ at the rate of RMB\$1.00: HK\$1.1355. Such exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

Certain figures set out in this announcement 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 announcement is due to rounding.

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

Beijing, China, December 21, 2018

As at the date of this announcement, 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.