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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.

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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)

(1) PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

A letter from the Board is set out on pages 5 to 31 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 6th floor, South Tower C, Raycom InfoTech Park, No. 2, Ke Xue Yuan Nan Lu, Haidian District, Beijing, PRC on February 1, 2019 at 10:00 a.m. is set out on pages 32 to 34 of this circular. Whether or not you are able to attend such meeting, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting (or adjourned meeting thereof as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting (or adjourned meeting thereof as the case may be) should you so wish.

January 16, 2019

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DEFINITIONS

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

“Amended Subscription Agreement”	the Subscription Agreement, as amended by the Amendment Agreement
“Amendment Agreement”	the amendment agreement to the subscription agreement dated January 16, 2019 entered into between the Company and the Subscriber for the subscription by the Subscriber of the Convertible Bonds
“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 “2. Principal Terms of the Subscription Agreement - Conditions Precedent” of this circular
“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

DEFINITIONS

“Conversion Price”	the price at which Conversion Shares will be issued upon conversion of the Convertible Bonds, as more particularly described in the paragraph “3. Principal Terms of the Convertible Bonds - Conversion Price” of this circular
“Conversion Rights”	the right of a Bondholder to convert any Convertible Bonds into Shares, as more particularly described in the paragraph “3. Principal Terms of the Convertible Bonds - Conversion Rights” of this circular
“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 “3. Principal Terms of the Convertible Bonds - Conversion Shares” of this circular
“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 Amended Subscription Agreement
“Convertible Bonds 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, the Amendment 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 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

DEFINITIONS

“Last Trading Day”	December 20, 2018, being the last full Trading Day immediately prior to the entering into the Subscription Agreement
“Latest Practicable Date”	January 15, 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“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, i.e. June 21, 2019
“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 circular, 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

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary share(s) of the Company
“Shareholder(s)”	the shareholder(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 Latest Practicable Date, 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

Unless indicated otherwise in this circular, the exchange rate between U.S. Dollars and Hong Kong Dollars used in this circular is US\$1.00 to HK\$7.8139 and the exchange rate between RMB and Hong Kong Dollars used in this circular is RMB1.00 to HK\$1.1355. 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.

LETTER FROM THE BOARD



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

January 16, 2019

To the Shareholders

Dear Sir or Madam,

PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

Reference is made to the announcement of the Company dated December 21, 2018 in relation to the proposed issue of Convertible Bonds under the Specific Mandate. On December 21, 2018 (after trading hours) the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company agreed to issue, and the Subscriber agreed to subscribe for the Convertible Bonds

LETTER FROM THE BOARD

in the aggregate principal amount of HK\$800,000,000 for a total consideration equal to the aggregate principal amount of the Convertible Bonds. The Subscription Agreement has been amended by the Amendment Agreement. The Board proposes to seek the approval of the Shareholders for the allotment and issue of the Conversion Shares under Specific Mandate and the Subscription.

The main purpose of this circular is to provide you with, among other things, (i) further information on the Subscription Agreement, the Amendment Agreement, Convertible Bonds Instrument and the transactions contemplated thereunder; (ii) the Specific Mandate; and (iii) a notice of the EGM.

2. PRINCIPAL TERMS OF THE SUBSCRIPTION AGREEMENT

A 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.

Mr. Zhao John Huan, the Chairman and a non-executive director of the Company, is also an executive director of Legend Holdings, which holds 100% issued share capital of the Subscriber. Mr. Zhao does not hold any shareholding in Legend Holdings or the Subscriber. The Subscriber is independent from the Company, its connected persons and their respective associates.

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;

LETTER FROM THE BOARD

- 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 its 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 Company's Shares has not been cancelled; (ii) the Company's 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 approvals and consents 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.

LETTER FROM THE BOARD

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.

As of the Latest Practicable Date, except for the Condition A having been fulfilled, none of the Conditions Precedent has been fulfilled or waived, and the Company has no intention to waive any of the Conditions Precedent. The Company will not waive any of the Conditions Precedent if the waiver of such Condition Precedent is not fair and reasonable and not in the interest of the Company and its Shareholders as a whole. As a result, the Board does not consider the waiver of such Conditions Precedent, if any, will affect the substance of the Subscription.

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.

The Company expects Closing to take place on or before June 21, 2019 (being the Long Stop Date).

LETTER FROM THE BOARD

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 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 a 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.

LETTER FROM THE BOARD

The Board considers that the grant of the Right of First Subscription and the Anti-Dilution Right to the Subscriber is fair and reasonable and in the interest of the Company and the Shareholders as a whole upon taking into account of the following reasons: (1) issuance of the Convertible Bonds at a substantial premium with no interest rate and a five-year's term is favorable to the Company under the current market conditions and it is commercially fair and reasonable to grant such special rights to the Subscriber as part and parcel of the Subscription; (2) the grant and exercise of the Right of First Subscription and the Anti-dilution Right will be subject to the applicable laws, regulations and the Listing Rules; (3) by allowing the Subscriber to secure its long-term investments in the Company, it is also beneficial for the Company to have the Subscriber as a stable long-term strategic investor, which allows the Company to benefit from the Subscriber's extensive industry experience and network, reputation endorsement, long-term investment strategy, government resources and connections and management support, and will provide a stable shareholder base for the Company; and (4) the other factors mentioned in the section headed "7. Reasons for and benefits of entering into the subscription agreement and use of proceeds".

The Company confirms that the grant and exercise of the Right of First Subscription and the Anti-Dilution Right to the Subscriber will be in accordance with the relevant applicable laws, regulations and the Listing Rules, including any Listing Rules on obtaining valid mandates and on connected transactions as and when applicable; and in the event the Subscriber becomes the Company's shareholder, the Subscriber and its affiliates will abstain from voting in the general meeting approving such mandates or connected transactions.

Nomination Right : Pursuant to the Subscription Agreement, upon Closing, the Subscriber shall be entitled to nominate one qualified person as a director of the Company.

On January 16, 2019, the Company and the Subscriber have entered into the Amendment Agreement to amend the nomination right of the Subscriber, pursuant to which, when the Convertible Bonds have not been converted, provided that the Subscriber directly or indirectly holds not less than 10% of the Company's total issued share capital on an as-converted and fully-diluted basis, the Subscriber shall be entitled to nominate one qualified person as a director of the Company. If the Convertible Bonds have been fully or partially converted, the Subscriber shall be entitled to nominate one qualified person as a director of the Company pursuant to the Articles. Under the Articles, any Shareholder (except for the person being nominated) who is entitled to attend and vote at the general meetings of the Company can nominate any candidate by a written notice tendered to the Company's secretary within a prescribed period under the Articles.

LETTER FROM THE BOARD

The Board considers that the grant of the nomination right to the Subscriber is fair and reasonable and in the interest of the Company and the Shareholders as a whole for the reasons as stated above with regards to the grant of the Right of First Subscription and the Anti-Dilution Right to the Subscriber. Moreover, having a representative from Legend Holdings on the Board will, on one hand, enable the Company to better communicate with Legend Holdings as a long-term investor and to more efficiently utilize the rich resources of Legend Holdings to further the Company's business plans and strategies; and on the other hand, enable Legend Holdings to better understand the business and operation of the Company to maximize the synergic effects that are expected to be created between the Company and Legend Holdings.

Pursuant to the Amended Subscription Agreement, the exercise of nomination right will be subject to compliance with the Articles, applicable laws and the Listing Rules. The nomination committee of the Board will consider and assess such nominated candidate to see whether he/she is eligible and suitable to be a director of the Company in accordance with the Articles, the Listing Rules and applicable laws. The Board does not have a contractual obligation to ensure that the candidate nominated by the Subscriber to be appointed to the Board. The Board has the right to reject the nomination of the candidate as a director of the Company if the Board considers him/her to be not suitable, or if such nomination is not in compliance with the Articles, the Listing Rules and applicable laws. Such rejection would not constitute an event of default under the terms of the Convertible Bonds. There will also be no consequences to the Company if the director nominated by the Subscriber is not appointed at the general meeting of the Company.

Save for the above, no other amendment has been made to the Subscription Agreement

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 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. In such case, the Company will comply with the applicable Listing Rules, and seek approval from its Shareholders or independent Shareholders where required.

LETTER FROM THE BOARD

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.

3. 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.
Interest Rate	: The Convertible Bonds do not bear any interest.
Maturity Date	: The date falling on the fifth (5 th) 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 unless consent is obtained from the Bondholder(s) to amend the Convertible Bonds Instrument in accordance with the terms therein.
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 (6 th) 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 (i.e. 25% of the Company's total number of issued Shares must be held by the public).
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.

LETTER FROM THE BOARD

- (a) If and whenever there shall be an alteration of the nominal amount of the Shares by reason of consolidation, sub-division or re-classification of Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

- (b) If and whenever the Company shall issue any Shares credited as fully paid (other than in lieu of cash dividend) by way of capitalization of profits or reserves of the Company and which would not have constituted a capital distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

LETTER FROM THE BOARD

- (c) If and whenever the Company shall pay or make any capital distribution made to the Shareholders (except where the Conversion Price falls to be adjusted under (b) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such capital distribution by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the current market price of one Share on the last Trading Day preceding the date on which the capital distribution is publicly announced; and

B is the fair market value on the date of such announcement of the portion of the capital distribution attributable to one Share.

Such adjustment shall become effective on the date that such capital distribution is made.

- (d) If and whenever the Company shall pay or make any dividend or distribution, whether of cash, assets or other property to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such dividend by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the current market price of one Share on the last Trading Day preceding the date on which the dividend is publicly announced; and

B is the fair market value on the date of such announcement of the portion of the cash distribution attributable to one Share.

Such adjustment shall become effective on the date that such dividend is paid.

LETTER FROM THE BOARD

- (e) If and whenever the Company shall issue Shares by way of rights, or issue or grant of any options, warrants or other rights to subscribe for or purchase any Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued or granted by way of rights and for the total number of Shares comprised therein would purchase at such current market price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

- (f) If and whenever the Company shall issue 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, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the current market price of one Share on the last Trading Day preceding the date on which the issue or grant is publicly announced; and

B is the fair market value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be).

LETTER FROM THE BOARD

- (g) If and whenever there is 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, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such modification (but where the relevant securities carry rights of conversion into, or rights of exchange or subscription for, or purchase or acquisition of, Shares which have been issued by the Company for the purposes of, or in connection with, such issue, less the number of Shares so issued);

B is the number of Shares which the aggregate consideration (if any) receivable by the Company for the Shares to be issued, or otherwise made available, on conversion or exchange or on exercise of the right of subscription, purchase or acquisition attached to the securities so modified would purchase at such current market price per Share or, if lower, the existing conversion, exchange, subscription or purchase price of such securities; and

C is the maximum number of Shares to be issued, or otherwise made available, on conversion or exchange of such securities or on the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription or purchase price or rate but giving credit in such manner as one leading investment bank of international repute (acting as expert), selected by the Company and approved by an ordinary resolution of the Bondholders, consider appropriate (if at all) for any previous adjustment under this paragraph (g).

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such securities.

LETTER FROM THE BOARD

- (h) If and whenever there is an issue, sale or distribution of any securities in connection with an offer by or on behalf of 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 (except where the Conversion Price falls to be adjusted under paragraphs (e) and (f) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue, sale or distribution by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the current market price of one Share on the last Trading Day preceding the date on which such issue is publicly announced; and

B is the fair market value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue, sale or distribution of the securities.

- (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 x 6% x 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).

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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 22.100% over the closing price of HK\$16.38 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (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;

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- (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 Latest Practicable Date).

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 "7. 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 Latest Practicable Date; 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.

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4. PRINCIPAL TERMS OF THE MOUS

As one of the Conditions Precedent, the Company and the Subscriber proposed to enter into a legally-binding MOU with each of (1) Vanguard Glory and Hony Fund V and (2) Hony Capital Fund VIII (Cayman), L.P., being the respective holders of the outstanding VG Convertible Bonds and Hony Fund VIII Convertible Bonds at the Latest Practicable Date.

A 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 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**”).

The exercise of the Right of First Refusal will be in accordance with the Articles, the relevant applicable laws and regulations, as well as the Listing Rules.

Undertakings : (a) Subject to and in accordance with the Articles, applicable laws and the Listing Rules, the Company undertakes to procure the nomination of the person as director of the Company, and 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.

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- 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**”).

The exercise of the Right of First Refusal will be in accordance with the Articles, the relevant applicable laws and regulations, as well as the Listing Rules.

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

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

The Right of First Refusal will be granted by the bondholders of the VG Convertible Bonds and Hony Fund VIII Convertible Bonds in favor of the Subscriber. The Company will be a party to the MOUs as its prior written consent is required in the event of any transfer of VG Convertible Bonds or Hony Fund VIII Convertible Bonds according to their respective convertible bonds instruments.

The Board considers that entering into the MOUs is part and parcel of the Subscription and in the interests of the Company and its Shareholders as a whole, for the reasons as set out in the section headed “7. Reasons for and benefits of entering into the subscription agreement and use of proceeds”. More importantly, Legend Holdings, as a leading diversified investment holding group in China, has inherent advantages as compared to institutional and fund investors. Legend Holdings has a vision of long-term potential growth in the medical service industry and strong capital strength. Legend Holdings is also flexible and efficient in adjusting its pre-subscription investment schedules and making future investment decisions to further invest in the Company if it thinks commercially desirable. The Board believes that Legend Holdings as a corporate investor will enable the Company to stabilize and strengthen its shareholding base.

5. 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.

6. 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.

7. 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

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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 Latest Practicable Date, the Company has identified five potential acquisition targets, which include a Class II general hospital in the Jiangsu province (the “**Hospital Acquisition**”), 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 Acquisition**”, the “**Potential Acquisitions**”). Currently, the Company is either conducting due diligence or has completed the due diligence against the potential targets in the Potential Acquisitions. As at the Latest Practicable Date, the Company has not entered into any agreement, understanding, arrangement or undertaking in respect of the Potential Acquisitions. The Company expects to enter into all of the Potential Acquisitions in the second quarter of 2019.

Since its listing on the Stock Exchange on March 16, 2017, 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 of the net proceeds from the Subscription, together with the remaining balance of approximately HK\$51.5 million of the proceeds from the issue of VG Convertible Bonds (as elaborate in detail in the section headed “9. Fund Raising Activities in the Past Twelve Months”), for the financing of the Hospital Acquisitions and the Minority Shareholding Acquisitions. Among which, the Company intends to allocate such proceeds in the following manner:

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	<i>Approximate HK\$ amount</i>
Net proceeds from the Subscription	798,000,000
Remaining balance from the proceeds of VG Convertible Bonds issuance	51,500,000
Total proceeds	849,500,000
<i>Intended use of proceeds:</i>	
For the acquisition of the equity interest held by minority shareholders in Cixi Honghe Medical Management Co., Ltd.	109,000,000
For the acquisition of 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.	260,000,000
For the Hospital Acquisition	480,500,000

The Company expects that the Hospital Acquisition may require approximately HK\$1 billion of funding. The Company will utilize its internal resources and seek further sources of funding, such as bank financing and equity fund raising activities, to fulfill the remaining balance of the Hospital Acquisition.

The Company expects to enter into the Potential Acquisitions in the second quarter of 2019, as such the expected timeline for the proposed use of proceeds in the Potential Acquisitions will likely be within 2019.

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. If any of the Potential Acquisitions does not materialize, the Company will use such proceeds from the Subscription for other appropriate acquisition opportunities of hospitals or hospital management businesses. The Company is currently conducting preliminary or advanced due diligence against other potential acquisition targets in its business pipeline, including two Class III hospitals in Guangdong, a Class II hospital in Anhui, a Class II hospital in Hubei, a Class II hospital in Jinzhou and a Class III and two Class II hospitals in Hebei. The above-mentioned potential hospital targets in the business pipeline have 500 to 1,000 registered beds. For the avoidance of doubt, the proceeds of the Subscription can be assigned to each or any of the potential targets in the Potential Acquisitions or the Company's business pipeline which can be materialized. If any of the Potential Acquisitions does not materialize, the Company expects to choose other potential targets from its business pipeline within 2019. If the Potential Acquisitions eventually materialize, the Company will consider whether to proceed with other acquisitions of the potential targets in its business pipeline based on the circumstances of the market and the situation of the Company at that time.

As the platform for hospital operation and management business of Hony Capital, the Company benefits from having a dedicated investment team with extensive industry network and investment expertise, enabling the Company to effectively screen and identify potential targets, as well as to

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evaluate whether they meet our investment criteria in terms of, including but not limited to, operational and financial performance, medical expertise and reputation, as well as potential returns and estimated future value. With Legend Holdings introduced as our long-term strategic investor, we expect to further benefit from Legend Holdings' industry experience, resources and network in the healthcare industry as the leading diversified investment holding group in China to enlarge the base of our future potential targets.

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

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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.

Based on the above-mentioned strengths and expertise of Legend Holdings, it is beneficial to the Company if the Subscriber has a stable shareholding in the Company so as to build on the long-term investment relationship.

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.

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Legend Holdings continuously seeks investment opportunities and it has been optimistic about the long-term development of the medical service industry and the development potential of the private medical sector. Legend Holdings came across the Company when screening its potential investment targets, and after its due diligence against the Company and its core management team, it considered the Company to have an experienced hospital management team and strong foundation for hospital operation and management, with clear expansion strategies and business development plans that are conducive to building a long-term stable medical management and general medical platform. As such, Legend Holdings has decided to participate in the investment in the Company.

The issuance of the Convertible Bonds is a private arrangement. When receiving the terms of the Subscription, the Company has consulted a few investment banks in relation to the prevailing terms of convertible bonds under the current market conditions to ensure the fairness and reasonableness of terms of the Convertible Bonds, and the Directors are of the view that the terms of the Convertible Bonds are the best terms reasonably available to the Company after taking into account the reasons and benefits as set out above and also conducted researches among the recent market cases based on the information publicly available.

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 Latest Practicable Date, the Company does not have any concrete plan, expected terms, amount, or timing, and has not entered into any formal agreements, for any equity fund raising activities or alternative financing arrangements in the next 12 months. Taking into account the proceeds from the Subscription, the Company expects to have sufficient working capital in the next 12 months.

8. CHANGES IN SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, 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 Latest Practicable Date, (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), (iii) immediately after the Subscription and assuming full conversion of the Convertible Bonds the VG Convertible Bonds and the Hony Fund VIII Convertible Bonds at their respective initial Conversion Price, and (iv) immediately after the Subscription and assuming conversion of the Convertible Bonds only 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 (i.e. which is 25% of the Company's total number of issued Shares must be held by the public):

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Name of Shareholders	As at the Latest Practicable Date		Immediately after the Subscription and assuming full conversion of the Convertible Bonds only at the initial Conversion Price ¹		Immediately after the Subscription and assuming full conversion of the Convertible Bonds, the VG Convertible Bonds and the Hony Fund VIII Convertible Bonds at their respective initial conversion price ¹		Immediately after the Subscription and assuming conversion of the Convertible Bonds only 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	
	Approximate % of issued share capital of the Shares Company	Number of Shares	Approximate % of issued share capital of the Shares Company	Number of Shares	Approximate % of issued share capital of the Shares Company	Number of Shares	Approximate % of issued share capital of the Shares Company	Number of Shares
Vanguard Glory Limited	97,000,000	70.19	97,000,000	54.44	123,000,000	50.64	97,000,000	63.17
Midpoint Honour ²	2,860,000	2.07	2,860,000	1.60	2,860,000	1.18	2,860,000	1.86
Hony Capital Fund VIII (Cayman), L.P.	0	0.00	0	0.00	38,693,985	15.93	0	0.00
The Subscriber	0	0.00	40,000,000	22.45	40,000,000	16.47	15,354,800	9.99
Other Public Shareholders	38,334,000	27.74	38,334,000	21.51	38,334,000	15.78	38,334,000	24.97
Total	138,194,000	100.00	178,194,000	100.00	242,887,985	100.00	153,548,800	100.00

Notes:

- 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, the VG Convertible Bonds and the Hony Fund VIII Convertible Bonds, their respective conversion rights may only 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.
- Midpoint Honour is indirectly owned as to 83.33% by Mr. Zhang Xiaopeng, a former Director of the Company up to May 23, 2018.

9. 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 Latest Practicable Date:

Date of first announcement	Fund raising activities	Net proceeds raised (approximate)	Intended use of proceeds as announced	Actual use of proceeds as at the Latest Practicable Date
January 25, 2018	Issuance of VG Convertible Bonds	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 (the “Guangzhou Acquisition”).	<p>The Company utilized approximately HK\$415.5 million in the Cixi Acquisition after taking into consideration of (1) the delay of Guangzhou Acquisition, (2) the additional financing costs to be incurred by the Group in obtaining funding for the remaining consideration of Cixi Acquisition, and (3) that such adjustment in use of proceeds will improve the efficiency of capital use of the Company. As such, the Board considers such adjustment to be fair and reasonable and in the interest of the Company and its Shareholders as a whole. The balance of the proceeds 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. For further illustration, please refer to the section headed “7. Reasons for and Benefits of Entering into the Subscription Agreement and Use of Proceeds”.</p> <p>Due to an ongoing reorganization of the target and changes in market conditions, the Guangzhou Acquisition has been substantially delayed. The Group is renegotiating the key terms of the transaction and if a satisfactory agreement can be reached, the Group expects to proceed with the Guangzhou Acquisition. The Guangzhou Acquisition will be financed with mixed sources of funding, which may include debt financing, the Group’s readily available funds and other funding which is then available to the Group.</p>

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As disclosed above, the Company already intends to use the remaining balance of the proceeds generated from the issuance of VG Convertible Bonds 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.

10. 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 Latest Practicable Date 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.

11. IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, 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. The Shareholders' approval on the resolutions to approve the Subscription Agreement, the Amendment Agreement, the Specific Mandate and the Subscription will be valid from the date of granting such approval to five business days after the Long Stop Date, and if Closing does not occur before such date, the resolutions will lapse after such date and the Company will seek further Shareholders' approval for the Subscription, the Specific Mandate, the Subscription Agreement and the Amendment Agreement.

Mr. Zhao John Huan ("**Mr. Zhao**"), the Chairman and a non-executive director of the Company is also an executive director of Legend Holdings. As at the Latest Practicable Date, there are nine directors (including four executive directors) on the board of directors of Legend Holdings and Mr. Zhao does not have control over the board of Legend Holdings. Nevertheless, Mr. Zhao is deemed to have material interest in the Subscription, and had abstained from voting on the relevant board resolutions approving the Subscription.

Mr. Zhao is a connected person of the Company under Chapter 14A of the Listing Rules. Furthermore, Mr. Zhao holds 49% shareholding in Exponential Fortune Group Limited, which indirectly holds 80% shareholding in Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is the general partner of Hony Capital Fund V GP, L.P., which is the general partner of Hony Capital Fund V, L.P. Hony Capital Fund V, L.P., through Vanguard Glory, holds 70.19% issued share capital of the Company. However, Mr. Zhao does not hold any shareholding in Legend Holdings or the Subscriber. Therefore, Legend Holdings is not a connected person of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

12. GENERAL

An EGM will be convened for the Shareholders to consider and, if thought fit, to approve, among other things, the Subscription Agreement, the Amendment 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, the Amendment Agreement and the transactions contemplated thereunder and the Specific Mandate at the EGM.

13. RECOMMENDATION

The Directors consider that the terms of the Subscription Agreement and the Amendment Agreement are on normal commercial terms and the issue of Convertible Bonds under the Specific Mandate are fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM to approve the Subscription Agreement, the Amendment Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate.

14. EGM

An EGM will be held on February 1, 2019 at 10:00 a.m. at 6th floor, South Tower C, Raycom InfoTech Park, No. 2, Ke Xue Yuan Nan Lu, Haidian District, Beijing, PRC, during which resolutions will be proposed to the Shareholders to consider and, if thought fit, approve, among other matters, the Subscription Agreement, the Amendment Agreement and the transactions contemplated thereunder and the grant of Specific Mandate to allot and issue the Conversion Shares.

The notice of the EGM is set out on pages 32 to 34 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 accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company 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 and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish, and in such case, the form of proxy previously submitted shall be deemed to be revoked.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the Company will procure the chairman of the EGM to demand for voting on poll in respect of the ordinary resolutions to be proposed at the EGM in accordance with the Articles of the Company and Computershare Hong Kong Investor Services Limited, the branch share registrar and transfer office of the Company in Hong Kong, will serve as the scrutineer for the vote-taking.

15. 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

LETTER FROM THE BOARD

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.

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

NOTICE OF EGM



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 IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Hospital Corporation of China Limited (the “**Company**”) will be held at 6th floor, South Tower C, Raycom InfoTech Park, No. 2, Ke Xue Yuan Nan Lu, Haidian District, Beijing, PRC on February 1, 2019 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the conditional subscription agreement dated December 21, 2018 (the “**Subscription Agreement**”) and the amendment agreement to the Subscription Agreement dated January 16, 2019 (the “**Amendment Agreement**”) entered into between the Company and the subscriber (the “**Subscriber**”) for the subscription by the Subscriber of certain new convertible bonds (the “**Convertible Bonds**”) for an aggregate principal amount of HK\$800,000,000 to be issued by the Company, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) 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 shares of the Company as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds; and
- (c) any one or more directors of the Company be and are hereby authorized to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things, as the case may be, as they may in their discretion consider necessary, desirable or expedient to carry out the Subscription Agreement, the Amendment Agreement and the transactions contemplated thereunder into full effect.”

NOTICE OF EGM

2. “**THAT:**

- (a) the creation and issue of the Convertible Bonds by the Company pursuant to the terms of the Subscription Agreement and the Amendment Agreement be and are hereby approved; and
- (b) any one or more directors of the Company be and are hereby authorized to do all such acts and things as they consider necessary, desirable or expedient for the implementation of and giving effect to the resolution set out in paragraph (a) above.”

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

Beijing, China, January 16, 2019

Registered Office:
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Notes:

- 1. All resolutions at the EGM will be taken by poll 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.

NOTICE OF EGM

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 January 30, 2019. 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 January 30, 2019.

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.