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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)

**CONTINUING CONNECTED TRANSACTION
PROCUREMENT AGREEMENTS WITH ZHEJIANG ZHONGYOU LI
AND ZHEJIANG DAJIA**

THE AGREEMENTS

On June 3, 2019, Jiande Hospital, an indirectly non-wholly owned subsidiary of the Company, entered into (i) the Medicine Procurement Agreement with Zhejiang Zhongyouli, pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Zhongyouli agreed to sell, certain types of medicines from time to time during the term of the Medicine Procurement Agreement; and (ii) the Medical Consumables and Equipment Procurement Agreement with Zhejiang Dajia, pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Dajia agreed to sell, certain medical consumables and equipment from time to time during the term of the Medical Consumables and Equipment Procurement Agreement.

LISTING RULES IMPLICATIONS

Xinxiangli Investment is a substantial shareholder of Jiande Hospital, which is an indirectly non-wholly owned subsidiary of the Company and hence, Xinxiangli Investment is a connected person of the Company. Zhejiang Zhongyouli and Zhejiang Dajia are subsidiaries of Xinxiangli Investment and therefore are connected persons of the Company under the Listing Rules. Therefore the transactions contemplated under the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Amongst certain applicable percentage ratios (excluding profits ratio) calculated pursuant to Chapter 14 of the Listing Rules, the highest applicable percentage ratio in respect of the Agreements and the transactions contemplated thereunder exceeds 5% but is less than 25% on an aggregated basis. As Zhejiang Zhongyouli and Zhejiang Dajia are connected persons at the subsidiary level, the transactions contemplated under the Agreements are connected transactions between the Group and connected persons at the subsidiary level.

The Directors (including the independent non-executive Directors) have approved the transactions contemplated under the Agreements and confirmed that the Agreements and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Group and are on normal or better commercial terms, and the terms thereof (including the annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

On this basis and pursuant to Rule 14A.101 of the Listing Rules, the transactions contemplated under the Agreements are subject to reporting, annual review and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements.

A. THE AGREEMENTS

A1. The Medicine Procurement Agreement

On June 3, 2019, Jiande Hospital, an indirectly non-wholly owned subsidiary of the Company, entered into the Medicine Procurement Agreement with Zhejiang Zhongyouli, pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Zhongyouli agreed to sell, certain types of medicines from time to time during the term of the Medicine Procurement Agreement.

(i) Principal terms of the Medicine Procurement Agreement:

Date	:	June 3, 2019
Parties	:	(1) Jiande Hospital as purchaser (2) Zhejiang Zhongyouli as supplier
Duration	:	for a three years' term ending December 31, 2021
Products	:	Medicines as needed for the daily operation of Jiande Hospital from time to time.

Pricing Terms : (1) Medicines listed in the 2018 Prices Catalogue of the Medical Insurance of Zhejiang Province* (浙江省2018醫保支付價目錄)

The purchase price shall be determined in accordance with the price of the winning bid of supplying medicine to the medical insurance of Zhejiang Province.

(2) Medicines not listed in the 2018 Prices Catalogue of the Medical Insurance of Zhejiang Province* (浙江省2018醫保支付價目錄)

i. For each of the medicines available on the Medicine Bidding and Purchasing Platform of Zhejiang Province* (浙江省藥品招標採購平臺), the purchase price shall be determined in accordance with the purchase price of the same medicine on such platform.

ii. For each of the medicines not available on the Medicine Bidding and Purchasing Platform of Zhejiang Province* (浙江省藥品招標採購平臺), the purchase price shall be determined after arm's length negotiation and agreement between the parties to the Medicine Procurement Agreement, which shall be better than the purchase price of the same medicine offered to other hospitals within Zhejiang Province including the First People's Hospital of Jiande.

(3) In any of the above cases, the purchase prices shall be better than the comparable fair market prices of the medicines that the Company is able to obtain from other suppliers.

Payment Terms : The amount to be paid for the purchase of medicines shall be calculated on a monthly basis according to the actual amount of medicines purchased and supplied. Jiande shall settle the payment within 90 days following the date of receipt of the medicines. The payment for the medicines will be settled by bank transfers such as cheques and telegraphic transfers.

(ii) Historical Amounts

Historically, Jiande Hospital purchased the Medicines by itself or through independent third parties. For the year ended December 31, 2016, 2017 and 2018, the total amounts incurred by Jiande Hospital for purchase of the Medicines were approximately RMB78 million, RMB59 million and RMB75 million, respectively.

(iii) Annual Caps of the Medicine Procurement Agreement and Basis for Determining the Annual Caps

The annual caps in respect of the transactions contemplated under the Medicine Procurement Agreement for each of the three financial years ending December 31, 2019, December 31, 2020 and December 31, 2021 are expected to be RMB50 million for each year. These annual caps were determined with reference to (i) the historical amount of actual use of the Medicines; (ii) the historical transaction amounts in respect of purchases of the Medicines from third parties; (iii) the anticipated demand of the Medicines of the Company in the future three years; (iv) the current market prices of the Medicines; and (v) potential prices fluctuations.

A2. The Medical Consumables and Equipment Procurement Agreement

On June 3, 2019, Jiande Hospital, an indirectly non-wholly owned subsidiary of the Company, entered into the Medical Consumables and Equipment Procurement Agreement with Zhejiang Dajia, pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Dajia agreed to sell, certain medical consumables and equipment from time to time during the term of the Medical Consumables and Equipment Procurement Agreement

(i) Principal terms of the Medical Consumables and Equipment Procurement Agreement

Date	:	June 3, 2019
Parties	:	(1) Jiande Hospital as purchaser (2) Zhejiang Dajia as supplier
Duration	:	for a three-years' term ending December 31, 2021
Products	:	Certain types of medical consumables and equipment as required for the daily operation of Jiande Hospital from time to time.

Pricing Terms : The prices of such products shall be better than the fair market values of or prices offered by independent third parties for the medical consumables and equipment to be purchased and will be determined by arm's length negotiation and agreement between the parties to the Medical Consumables and Equipment Procurement Agreement with reference to:

- i. the current market prices of similar products provided by independent third parties in their normal course of business in the vicinity of the parties and on normal commercial terms; and
- ii. the prices of similar products in non-connected transactions between Zhejiang Dajia and independent third parties.

Payment Terms : The payment for Medical Consumables and Equipment shall be settled on a monthly basis according to the actual amount of Medical Consumables and Equipment purchased and supplied. Jiande Hospital shall then pay the purchase price by bank transfers such as cheque or telegraphic transfer within 120 days after receipt of the relevant products from Zhejiang Dajia.

(ii) Historical Amounts

Before Jiande Hospital became a subsidiary of the Company, it purchased certain equipment from Zhejiang Dajia and purchased certain quantities of medical consumables and equipment from other independent third parties. For the years ended December 31, 2016, 2017 and 2018, the total amounts incurred by Jiande Hospital for the purchase of the medical consumables and equipment were approximately RMB19 million, RMB32 million and RMB29 million, respectively and the amounts incurred by Jiande Hospital for the purchase of medical equipment from Zhejiang Dajia were approximately RMB6.4 million, RMB14.2 million and RMB12.3 million, respectively.

(iii) Annual Cap of the Medical Consumables and Equipment Procurement Agreement and Basis for Determining the Annual Cap

The annual caps in respect of the transactions contemplated under the Medical Consumables and Equipment Procurement Agreement for each of the three financial years ending December 31, 2021 are expected to be RMB7 million, RMB8 million and RMB9 million, respectively. These annual caps were determined with reference to (i) the historical amount of actual use of the Medical Consumables and Equipment; (ii) the historical transaction amounts in respect of the purchases of medical equipment by the Company from Zhejiang Dajia; (iii) the anticipated demand of the Medical Consumables and Equipment of the Company in the future three years; (iv) the current market prices of the Medical Consumables and Equipment; and (v) potential prices fluctuations.

B. INFORMATION ON THE GROUP, JIANDE HOSPITAL, ZHEJIANG ZHONGYOU LI AND ZHEJIANG DAJIA

The Group

The Company was incorporated in Cayman Islands as an exempted company with limited liability, the 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 the PRC.

Jiande Hospital

Jiande Hospital is a company established in the PRC with limited liability and is a for-profit traditional Chinese medicines general hospital in Zhejiang that features the use of traditional Chinese medicines and provides comprehensive medical services. Jiande Hospital is indirectly owned as to 70% by the Company.

Zhejiang Zhongyouli

Zhejiang Zhongyouli is a company established in Hangzhou with limited liability and is a medicine supplier to numerous hospitals in Zhejiang. Zhejiang Zhongyouli is a subsidiary of Xinxiangli Investment.

Zhejiang Dajia

Zhejiang Dajia is a company established in Hangzhou with limited liability and is a medical consumables and equipment supplier to numerous hospitals in Zhejiang. Zhejiang Dajia is a subsidiary of Xinxiangli Investment.

C. REASONS FOR AND BENEFITS OF THE PURCHASE AGREEMENTS

Implementation of new policies has resulted in increase in risk and cost incurred by the Group in the current medicines procurement process

DJ Medicines has become a subsidiary of the Company in early 2018 which is indirectly owned as to 70% by the Company. DJ Medicines is a small-scale medicine dealer principally engaged in medicine sales and procurement business. The Company has decided not to purchase the Medicines from DJ Medicines mainly because of (1) the change of medical insurance payment policy from payment according to the total amount to payment according to the type of disease, i.e., determining the payment standard according to the disease type which would affect the proportion of medicines being used and decrease the use of medicines; and (2) the implementation of “two-invoices system”* (兩票制) (i.e. the process in which a drug manufacturer issues an invoice when selling drugs to a drug dealer, and the drug dealer issues another invoice when selling drugs to a medical institution) and “Medicines Centralized Procurement and Use Policy of National Institutions”* (國家組織藥品集中採購和使用試點方案), which were launched in late 2017 and early 2019 respectively. These two new policies have simplified the process of sales and procurement of medicines and increased the operating and management cost of small scale medicine retailers including DJ Medicines.

The simplification of the process of sales and procurement of medicines is due to the fact that in traditional drug procurement processes, there were many drug dealers at different stages, whereas the “two-invoices system” simplifies the process by limiting the number of dealers in the procurement process for each type of medicines. Hence, each type of medicines will only have a limited number of dealers nowadays and is often dominated by large dealers. As such, it is nearly impossible for small scale medicine dealers such as DJ Medicines to compete with larger dealers for first-tier agency rights, whereas larger dealers can more easily obtain first-tier agency rights for certain types of medicines. Zhejiang Zhongyouli has already secured such first-tier agency rights of certain types of medicines and become capable of offering lower procurement prices to the Company, approximately 5% lower, which would be more commercially beneficial to the Company.

Further, under the policy of fixing medicine's price according to the quantity purchased, the prices of commonly used drugs will be greatly reduced due to the large demand and purchasing quantities, which significantly reduces the profit margin of drug manufacturers and dealers, including DJ Medicines. The operating costs have increased, as rents and social insurance of employees paid by the Company have risen, which further reduces the profit margin of the Company's internal medicines procurement.

As such, it will be more commercially beneficial to the Company to procure medicines from higher-tier external suppliers such as Zhejiang Zhongyouli, as opposed to lower-tier suppliers such as DJ Medicines, in terms of obtaining more competitive prices and avoiding increasing operational risks and costs.

Advantages to the Company to procure medicines and medical consumables and equipment from Zhejiang Zhongyouli and Zhejiang Dajia

It is commercially favorable to the Company to procure medicines and medical consumables and equipment from Zhejiang Zhongyouli and Zhejiang Dajia respectively for the following reasons:

1. as Zhejiang Zhongyouli has obtained the right to sales agency in 18 types of medicines at the provincial level and 35 types of medicines at the municipal level respectively, and Zhejiang Dajia is the provincial sales agent of the hemodialytic equipment of Fresenius Medical Care in Zhejiang province, the Company could purchase medicines, medical consumables and equipment from these two companies at lower prices of about 5% as compared to other companies;
2. the Agreements with Zhejiang Zhongyouli and Zhejiang Dajia have provided the Company with longer credit periods of three months or above, which can substantially improve the Company's cash flow and financing positions, whereas the current payment terms under the supply agreements with independent third parties require the Company to pay upon delivery of the procured products or pay within no more than one to two months upon delivery;
3. Zhejiang Zhongyouli and Zhejiang Dajia offered more flexible cooperative mode and timing, which is conducive to future adjustment to the Company's business plan, such as guaranteeing the timely supply of medicines required for the operation of Jiande Hospital, allowing more flexible delivery time

and more flexible procurement mechanism with less restrictions on the amount and types of medicines to be procured each time, as well as providing additional services to the Company such as medicine knowledge training.

The Directors (including the independent non-executive Directors) consider that the terms of the Agreements and the transactions contemplated thereunder are fair and reasonable. The annual cap and terms of the Agreements, which have been reached after arm's length negotiation, are on normal commercial terms or better than those with independent third parties. Based on the reasons above, the Directors (including the independent non-executive Directors) consider that the Agreements and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole.

None of the Directors is considered to have a material interest in the Agreements and the transactions contemplated thereunder, and therefore none of the Directors is required to abstain from voting on the relevant board resolutions approving the Agreements.

D. LISTING RULES IMPLICATIONS

Xinxiangli Investment is a substantial shareholder of Jiande Hospital, which is an indirectly non-wholly owned subsidiary of the Company and hence, Xinxiangli Investment is a connected person of the Company. Zhejiang Zhongyouli and Zhejiang Dajia are subsidiaries of Xinxiangli Investment and therefore are connected persons of the Company under the Listing Rules. Therefore the transactions contemplated under the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Amongst certain applicable percentage ratios (excluding profits ratio) calculated pursuant to Chapter 14 of the Listing Rules, the highest applicable percentage ratio in respect of the Agreements and the transactions contemplated thereunder exceeds 5% but is less than 25% on an aggregated basis. As Zhejiang Zhongyouli and Zhejiang Dajia are connected persons at the subsidiary level, the transactions contemplated under the Agreements are connected transactions between the Group and connected persons at the subsidiary level.

The Directors (including the independent non-executive Directors) have approved the transactions contemplated under the Agreements and confirmed that the Agreements and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Group and are on normal or better commercial terms, and the terms thereof (including the annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

On this basis and pursuant to Rule 14A.101 of the Listing Rules, the transactions contemplated under the Agreements are subject to reporting, annual review and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements.

E. DEFINITIONS

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

“Agreements”	the Medicine Procurement Agreement and Medical Consumables and Equipment Procurement Agreement
“Board”	the board of directors of the Company
“Company”	Hospital Corporation of China Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 3869)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“DJ Medicines”	Zhejiang Dajia Medicines Co., Ltd.* (浙江大佳醫藥有限公司), a company that is principally engaged in the wholesale of pharmaceutical products, an indirect non-wholly owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Jiande Hospital”	Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* (建德中醫院有限公司) a for-profit traditional Chinese medicine general hospital in Zhejiang and owned as to 70% by the Company indirectly and 30% by Xinxiangli Investment
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Medical Consumables and Equipment Procurement Agreement”	the agreement entered into on June 3, 2019 between Jiande Hospital and Zhejiang Dajia, pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Dajia agreed to sell, certain medical consumables and equipment

“Medical Consumables and Equipment”	certain medical consumables and equipment to be purchased pursuant to the Medical Consumables and Equipment Procurement Agreement
“Medicines”	certain types of medicines to be purchased pursuant to the Medicine Procurement Agreement
“Medicine Procurement Agreement”	the agreement entered into on June 3, 2019 between Jiande Hospital and Zhejiang Zhongyouli, pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Zhongyouli agreed to sell, certain types of medicines
“PRC”	the People’s Republic of China and for the purposes of this announcement, excludes Hong Kong, Taiwan and Macau Special Administrative Region of the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s) ”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xinxiangli Investment”	Zhejiang Xinxiangli Investment Co., Ltd.* (浙江新祥利投資有限公司), a company incorporated under the laws of the PRC with limited liability
“Zhejiang Dajia”	Zhejiang Dajia Medical Instruments Co., Ltd.* (浙江大佳醫療器械有限公司)
“Zhejiang Zhongyouli”	Zhejiang Zhongyouli Medicines Co., Ltd.* (浙江中友力醫藥有限公司)
“%”	per cent.

* *For identification purpose only*

By order of the Board
Hospital Corporation of China Limited
Shan Guoxin
Executive Director and Chief Executive Officer

Beijing, China, June 3, 2019

As at the date of this announcement, the directors of the Company are Mr. Shan Guoxin and Mr. LU Wenzuo being the executive Director; Mr. ZHAO John Huan, Mr. WEI Kai, 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.