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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)

CONNECTED TRANSACTION PROPOSED ALTERATION OF TERMS OF THE CONVERTIBLE BONDS

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



Alliance Capital Partners Limited
同人融資有限公司

PROPOSED ALTERATION OF TERMS OF THE CONVERTIBLE BONDS

On December 17, 2020 (after trading hours of the Stock Exchange), in accordance with the terms and conditions of the Convertible Bonds, the Company and Vanguard Glory entered into the Deed of Amendment to alter certain terms of the Convertible Bonds, subject to and effective from fulfilment of the Conditions Precedent.

Pursuant to the Alteration of Terms, (i) the maturity date of the Convertible Bonds shall be extended from March 5, 2021 to December 29, 2023; and (ii) in the event that the Shares cease to be listed or admitted to trading on the Stock Exchange, each Bondholder shall have the right, at such Bondholder's option, to require the Company to redeem, in whole or in part (i.e. rather than in whole only), such Bondholder's Convertible Bonds.

Save as revised by the Alteration of Terms, all of the terms and conditions of the Convertible Bonds remain unchanged and in full force.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Vanguard Glory, being the direct Shareholder of 97,000,000 Shares (representing approximately 70.19% of the issued share capital of the Company as at the date of this announcement), is a substantial shareholder of the Company. Accordingly, Vanguard Glory is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

The Alteration of Terms constitutes a connected transaction of the Company which is subject to the reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, pursuant to Rule 28.05 of the Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alteration takes effect automatically under the existing terms of such convertible debt securities. Accordingly, an application will be made by the Company to the Stock Exchange for the approval of the Alteration of Terms.

GENERAL

The Independent Board Committee has been established to give recommendations to the Independent Shareholders on the Deed of Amendment, the Alteration of Terms contemplated thereunder and the grant of the Specific Mandate. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Deed of Amendment, the Alteration of Terms contemplated thereunder and the grant of the Specific Mandate. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, except Vanguard Glory, which has material interest in the Deed of Amendment, no Shareholder is required to abstain from voting on the resolutions to approve the Deed of Amendment, the Alteration of Terms contemplated thereunder and the grant of the Specific Mandate at the EGM.

A circular containing, *inter alia*, (i) further details of the Deed of Amendment and the Alteration of Terms contemplated thereunder; (ii) further details of the Specific Mandate; (iii) a letter of recommendation from the Independent Board Committee; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (v) a notice of the EGM, is expected to be despatched to the Shareholders on or before January 11, 2021.

PROPOSED ALTERATION OF TERMS OF THE CONVERTIBLE BONDS

Background

Reference is made to the announcement of the Company dated January 25, 2018 and the circular of the Company dated February 13, 2018. On January 25, 2018, the Company and Vanguard Glory entered into the Subscription Agreement pursuant to which, among other things, the Company agreed to issue and Vanguard Glory agreed to subscribe for the Convertible Bonds in the aggregate principal amount of HK\$468,000,000 for a total consideration equal to the aggregate principal amount of the Convertible Bonds. The Convertible Bonds were issued to Vanguard Glory on March 5, 2018.

As at the date of this announcement, the Convertible Bonds remain outstanding in full and will mature on March 5, 2021 pursuant to the existing terms and conditions of the Convertible Bonds.

Deed of Amendment

On December 17, 2020 (after trading hours of the Stock Exchange), in accordance with the terms and conditions of the Convertible Bonds, the Company and Vanguard Glory entered into the Deed of Amendment to alter certain terms of the Convertible Bonds, subject to and effective from fulfilment of the Conditions Precedent.

Pursuant to the Alteration of Terms:

- (i) the maturity date of the Convertible Bonds shall be extended from March 5, 2021 to December 29, 2023 (i.e. the Extended CB Maturity Date); and
- (ii) in the event that the Shares cease to be listed or admitted to trading on the Stock Exchange, each Bondholder shall have the right, at such Bondholder's option, to require the Company to redeem, in whole or in part (i.e. rather than in whole only), such Bondholder's Convertible Bonds.

Save as revised by the Alteration of Terms, all of the terms and conditions of the Convertible Bonds remain unchanged and in full force.

Conditions Precedent

The Alteration of Terms pursuant to the Deed of Amendment will only become effective upon all of the following conditions having been fulfilled:

- (i) the Company having obtained from the Independent Shareholders all necessary approvals required under the Articles, applicable laws and the Listing Rules in respect of the Alteration of Terms;
- (ii) the Stock Exchange having approved the Alteration of Terms; and
- (iii) the Stock Exchange granting its approval for the listing of, and permission to deal in, the Conversion Shares fall to be issued upon exercise of the Conversion Rights attached to the Convertible Bonds as amended by the Deed of Amendment.

If any of the Conditions Precedent shall not have been fulfilled by March 5, 2021 or such later date as the parties to the Deed of Amendment may agree, the Deed of Amendment shall automatically terminate and (without prejudice to the rights and/or obligations of any party in respect of any antecedent breach) the parties thereto shall be released and discharged from their respective obligations under the Deed of Amendment.

Principal terms of the Convertible Bonds immediately after the Alteration of Terms

The principal terms of the Convertible Bonds (as revised by the Alteration of Terms) are as follows:

Issuer	:	the Company
Principal Amount	:	HK\$468,000,000
Issue Price	:	100% of the principal amount
Form and Denomination	:	Convertible Bonds are issued in registered form in the denomination of HK\$1,000,000 each.
Maturity Date	:	The Extended CB Maturity 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.
Interest	:	The Convertible Bonds do not bear any interest.
Conversion Rights	:	Subject to the restrictions set out below, Bondholder shall have the right to convert the Convertible Bonds into Shares at any time on or after the Closing Date up to the Extended CB Maturity Date at the discretion of such Bondholder.
Restriction on Conversion	:	No conversion of the Convertible Bonds shall take place if and to the extent that, immediately following such conversion, the Company would be in breach of its obligations under the minimum public float requirement under the Listing Rules.

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

- (a) an alteration of the nominal amount of the Shares by reason of consolidation, sub-division or re-classification of Shares;
- (b) an issue of Shares credited as fully paid (other than in lieu of cash dividend) by way of capitalization of profits or reserves of the Company;
- (c) a capital distribution made to the Shareholders (except where the Conversion Price falls to be adjusted under (b) above);
- (d) any dividend or distribution, whether of cash, assets or other property to the Shareholders;
- (e) an issue of Shares by way of rights, or issue or grant of any options, warrants or other rights to subscribe for or purchase any Shares by way of rights;
- (f) an issue of other securities by way of rights, or issue or grant of any options, warrants or other rights to subscribe for or purchase or otherwise acquire any securities by way of rights;
- (g) any modification of rights of conversion, exchange, subscription, purchase or acquisition attaching to any such securities arising from a conversion or exchange of other existing securities so that the consideration per Share is less than 95% of the current market price;
- (h) other offers by the Company or a subsidiary of the Company to the Shareholders who are entitled to participate in arrangements whereby the securities may be acquired by them; and
- (i) either (i) the rights of conversion, exchange, purchase or subscription attaching to any options, rights or warrants to subscribe for or purchase Shares or any securities convertible into or exchangeable for Shares or the rights carried by such securities to subscribe for or purchase Shares are modified (other than pursuant to the existing terms and conditions of such options, rights, warrants or securities); or (ii) 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 upon Maturity and Early Redemption : The Company will redeem all the outstanding Convertible Bonds at an amount of the principal amount of such outstanding Convertible Bonds on the Extended CB Maturity Date.

In the event that the Shares cease to be listed or admitted to trading on the Stock Exchange, each Bondholder shall have the right, at such Bondholder's option, to require the Company to redeem, in whole or in part, such Bondholder's Convertible Bonds.

The Company has no early redemption right under the Subscription Agreement.

- Default interest : If the Company fails to pay any sum in respect of the Convertible Bonds when the same becomes due and payable under the conditions of the Convertible Bonds, interest shall accrue on the overdue sum at the rate of 5% per annum from the due date and ending on the date on which full payment is made to the Bondholders. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day 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 Bondholder. Any transfer of the Convertible Bonds shall be made in compliance with all applicable requirements under the Listing Rules and all applicable laws and regulations.
- Affiliate means, in respect of the Bondholder, any other person directly or indirectly controlling or controlled by or under direct or indirect common control with the Bondholder.
- 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\$18.00 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 65.14% over the closing price of HK\$10.90 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 63.64% over the average closing price of approximately HK\$11.00 per Share as quoted on the Stock Exchange for the last five (5) consecutive Trading Days immediately prior to and including the Last Trading Day;
- (c) a premium of approximately 63.49% over the average closing price of approximately HK\$11.01 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; and

- (d) a premium of approximately 63.34% over the average closing price of approximately HK\$11.02 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.

The Conversion Price was determined when the Subscription Agreement was entered into on January 25, 2018, after arm's length negotiations between the Company and the Bondholder 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, and the assets, liabilities, financial performance, business condition and future prospects of the Company.

Conversion Shares

Based on the initial Conversion Price of HK\$18.00 per Conversion Share and assuming full conversion of the Convertible Bonds at the initial Conversion Price, the Convertible Bonds will be convertible into 26,000,000 Conversion Shares, which represent (i) approximately 18.81% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 15.83% 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 issue of the Conversion Shares are subject to the granting of the Specific Mandate by the Independent Shareholders. The Company will seek the grant of the Specific Mandate from the Independent Shareholders at the EGM.

There are no restrictions on any subsequent sale of the Conversion Shares. The allotment and issue of the Conversion Shares will not result in a change of control of the Company.

Listing

No application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

CHANGES IN SHAREHOLDING STRUCTURE

Assuming there being no change in the share capital and shareholding structure of the Company from the date of this announcement other than the allotment and issue of the Conversion Shares issuable under the Convertible Bonds, the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately upon full conversion of the Convertible Bonds at the initial Conversion Price is as follows:

Shareholders	As at the date of this announcement		Immediately upon full conversion of the Convertible Bonds at the initial Conversion Price	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
Vanguard Glory	97,000,000	70.19	123,000,000	74.91
Public Shareholders	41,194,000	29.81	41,194,000	25.09
Total	<u>138,194,000</u>	<u>100%</u>	<u>164,194,000</u>	<u>100%</u>

INFORMATION ON THE GROUP

The Company was incorporated in the 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 the hospital management business and general hospital business in China.

INFORMATION ON VANGUARD GLORY

Vanguard Glory was incorporated in the British Virgin Islands as a limited liability company. Vanguard Glory is an investment vehicle and has not conducted any operating activities since incorporation. As at the date of this announcement, Vanguard Glory, being the direct Shareholder of 97,000,000 Shares (representing approximately 70.19% of the issued share capital of the Company as at the date of this announcement), is a substantial shareholder of the Company. Accordingly, Vanguard Glory is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

REASONS FOR AND BENEFITS OF THE PROPOSED ALTERATION OF TERMS

The Convertible Bonds will mature on March 5, 2021 unless further extended. In the event that Vanguard Glory does not exercise its conversion rights, the Company would be expected to have a substantial cash outflow amounting to HK\$468,000,000 (being the principal amount of the Convertible Bonds) in order to redeem the Convertible Bonds.

The extension of the maturity date of the Convertible Bonds to the Extended CB Maturity Date pursuant to the Alteration of Terms will enable the Company to postpone such substantial cash outflow and allow the Group to have more financial flexibility in the deployment of its working capital for its hospital business operations and development, without having to incur additional financing costs to effect immediate repayment. In addition, given the continued impact of the COVID-19 pandemic and the large degree of uncertainty in the economic environment, the holding of sufficient funds will safeguard the Company's ability to cope with such complex environment and satisfy its potential investment needs.

The Company has explored other financing alternatives to raise funds required for redemption of the Convertible Bonds, including but not limited to, bank borrowing and equity financing. However, the Board is of the view that bank borrowings will not improve the financial position of the Company but will incur high financial cost each year. In addition, equity financing alternatives (such as placing of new shares and rights issue) would be time-consuming and result in a dilution on the shareholding of the existing Shareholders.

Further, the existing terms of the Convertible Bonds provide that upon delisting of the Shares, each Bondholder has an option to require the Company to redeem its Convertible Bonds in whole only (i.e. partial redemption is not possible). Pursuant to the Alteration of Terms, each Bondholder will have an additional option to require the Company to redeem part (but not all) of its Convertible Bonds, which could potentially minimize the cash outflow of the Group in those circumstances.

Having considered all the relevant factors (in particular, the terms of the Convertible Bonds which do not bear any interest) and in light of the reasons and benefits as set out above, the Directors (excluding the independent non-executive Directors whose opinion will be set out in the circular relating to the Alteration of Terms to be issued by the Company) consider that the terms and conditions of the Deed of Amendment and the Alteration of Terms contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company did not conduct any fund raising activities from the issue of equity securities in the twelve-month period immediately preceding the date of this announcement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Vanguard Glory, being the direct Shareholder of 97,000,000 Shares (representing approximately 70.19% of the issued share capital of the Company as at the date of this announcement), is a substantial shareholder of the Company. Accordingly, Vanguard Glory is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

The Alteration of Terms constitutes a connected transaction of the Company which is subject to the reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will comply with the requirements under Chapter 14A of the Listing Rules in respect of the Alteration of Terms, including but not limited to seeking Independent Shareholders' approval of the Deed of Amendment and Alteration of Terms contemplated thereunder at the EGM.

In addition, pursuant to Rule 28.05 of the Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alteration takes effect automatically under the existing terms of such convertible debt securities. Accordingly, an application will be made by the Company to the Stock Exchange for the approval of the Alteration of Terms.

GENERAL

Formation of Independent Board Committee and Appointment of Independent Financial Adviser

The Independent Board Committee has been established to give recommendations to the Independent Shareholders on the Deed of Amendment, the Alteration of Terms contemplated thereunder and the grant of the Specific Mandate. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Deed of Amendment, the Alteration of Terms contemplated thereunder and the grant of the Specific Mandate. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, except Vanguard Glory, which has material interest in the Deed of Amendment, no Shareholder is required to abstain from voting on the resolutions to approve the Deed of Amendment, the Alteration of Terms contemplated thereunder and the grant of the Specific Mandate at the EGM.

Despatch of Circular

A circular containing, *inter alia*, (i) further details of the Deed of Amendment and the Alteration of Terms contemplated thereunder; (ii) further details of the Specific Mandate; (iii) a letter of recommendation from the Independent Board Committee; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (v) a notice of the EGM, is expected to be despatched to the Shareholders on or before January 11, 2021.

DEFINITIONS

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

“Alteration of Terms”	the proposed alteration of certain terms of the Convertible Bonds as contemplated under the Deed of Amendment
“Articles”	the memorandum and articles of association of the Company
“Board”	the board of directors of the Company
“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 Date”	March 5, 2018, being the date of completion of the Subscription in accordance with the terms of the Subscription Agreement
“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)
“Conditions Precedent”	the conditions precedent set out in the paragraph headed “Conditions Precedent” of this announcement
“connected person(s)”, “subsidiary(ies)”	each has the meaning ascribed to it under the Listing Rules
“Conversion Price”	the price at which Conversion Shares will be issued upon conversion of the Convertible Bonds, as more particularly described in the paragraph headed “Conversion Price” of this announcement
“Conversion Rights”	the right of a Bondholder to convert any Convertible Bonds into Shares, as more particularly described in the paragraph headed “Conversion Rights” of this announcement

“Conversion Share(s)”	the Share(s) to be allotted and issued by the Company upon conversion of the Convertible Bonds, as more particularly described in the paragraph headed “Conversion Shares” of this announcement
“Convertible Bond(s)”	the convertible bond(s) with an aggregate principal amount of HK\$468,000,000 issued by the Company on March 5, 2018 pursuant to the Subscription Agreement and constituted by the Convertible Bonds Instrument
“Convertible Bonds Instrument”	the convertible bond instrument executed by the Company on March 5, 2018 for the issue by the Company of the Convertible Bonds
“Deed of Amendment”	the deed of amendment entered into between the Company and Vanguard Glory on December 17, 2020 in relation to the alteration of certain terms 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, the Deed of Amendment, the Alteration of Terms contemplated thereunder and the Specific Mandate
“Extended CB Maturity Date”	December 29, 2023
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors which has been established by the Board to advise the Independent Shareholders pursuant to the Listing Rules
“Independent Financial Adviser”	Alliance Capital Partners Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Deed of Amendment, the Alteration of Terms contemplated thereunder and the Specific Mandate
“Independent Shareholders”	the Shareholders other than those that are required under the Listing Rules to abstain from voting on the resolution(s) to be proposed at the EGM
“Last Trading Day”	December 16, 2020, being the last full Trading Day immediately prior to the date of this announcement

“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC” or “China”	The People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shareholder(s)”	the holder(s) of the Share(s) of the Company
“Share(s)”	the ordinary share(s) of HK\$0.001 each in the issued capital of the Company
“Specific Mandate”	the specific mandate to be sought from the Independent Shareholders at the EGM and to be granted to the Directors for the allotment and issue of the Conversion Shares upon exercise of the Conversion Rights attaching to the Convertible Bonds
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated January 25, 2018 entered into between the Company and the Vanguard Glory for the subscription 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 approximately 70.19% issued share capital of the Company as at the date of this announcement
“%”	per cent.

By order of the Board
Hospital Corporation of China Limited
Chen Shuai
Chairman

Beijing, China, December 17, 2020

As at the date of this announcement, the Directors of the Company are Mr. CHEN Shuai and Mr. LU Wenzuo being the executive Directors; Mr. SU Zhiqiang, Ms. SHI Wenting, Ms. LIU Lu and Ms. WANG Nan being the non-executive Directors; and Mr. DANG Jinxue, Mr. SHI Luwen and Mr. ZHOU Xiangliang being the independent non-executive Directors.