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)

UPDATE ANNOUNCEMENT

(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTERESTS OF HANGZHOU JINGYOUZHI; AND (2) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE ENTRY OF THE NEW VIE CONTRACTS

Reference is made to the announcement of Hospital Corporation of China Limited (the "**Company**") dated February 16, 2022 (the "**Announcement**") regarding the discloseable and connected transactions in relation to the acquisition of the entire equity interests of Hangzhou Jingyouzhi and the continuing connected transactions in relation to the entry of the New VIE Contracts. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Announcement.

I. WAIVER IN RESPECT OF THE NEW VIE CONTRACTS

The Company has applied for a waiver (the "**Waiver**") pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the New VIE Contracts for a period of not exceeding three years under Rule 14A.52 of the Listing Rules; and (ii) setting a maximum annual cap for the service fees payable by the OPCO to Jiande Heyue under Rule 14A.53 of the Listing Rules.

Reasons for application of the Waiver

Immediately after the Completion, each of the PRC Equity Owners and the OPCO will become a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the New VIE Contracts will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Despite the aforesaid continuing connected transactions are exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules, the Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs of the Company, for all transactions contemplated under the New VIE Contracts to be subject to the requirements set out under Rules 14A.52 and 14A.53 of the Listing Rules, namely the requirements of (i) limiting the term of the New VIE Contracts to three years or less; and (ii) setting a maximum aggregate annual value (that is, an annual cap) for the service fees payable by the OPCO to Jiande Heyue under the Exclusive Operation Service Agreement.

Grant of Waiver

In view of the above, the Company has applied for, and the Stock Exchange has granted the Waiver, subject to the following conditions:

(a) ***No change without independent non-executive Directors' approval***

Save for any mandatory change required under or resulting from applicable laws and regulations, no changes to the New VIE Contracts will be made without the approval of the independent non-executive Directors.

(b) ***No material changes without independent Shareholders' approval (if required)***

Whilst the entering into of the New VIE Contracts is exempt from the circular, independent financial advice and Shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules, save for any mandatory change required under or resulting from applicable laws and regulations and save as described in paragraph (d) below, the Company will comply with the independent Shareholders' approval requirements under the Listing Rules if there are material changes to the New VIE Contracts.

(c) ***Economic benefits flexibility***

The New VIE Contracts shall continue to enable the Group to receive the economic benefits derived by the OPCO Group through (i) the Group's option (if and when so allowed under the applicable PRC laws) to acquire (1) all or any part of the equity interests in the OPCO or the assets of the OPCO, and (2) all or any part of the 30% of equity interests in Jiande Hospital or assets of Jiande Hospital attributable to the OPCO, for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations; (ii) the business structure under which all of the respective amounts of surplus from operations generated by the OPCO Group and multiplied by the proportion of the direct and/or indirect interest of the PRC Equity Owners in the OPCO Group is substantially retained by the Group, such that no annual cap shall be set on the amount of service fees payable to Jiande Heyue by the OPCO Group under the Exclusive Operation Service Agreement, and (iii) the Group's right to control the management and operation of, as well as, in substance, all of the voting rights of OPCO held by the PRC Equity Owners and Jiande Hospital held by OPCO.

(d) ***Renewal and reproduction***

On the basis that the New VIE Contracts provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding, on the one hand, and the OPCO Group, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish ("**WFOE**") when justified by business expediency. Such framework may be renewed or reproduced on substantially the same terms and conditions as the New VIE Contracts without obtaining the approval of the Shareholders. The directors, chief executives or substantial shareholders of any existing or new WFOE will, upon renewal and/or reproduction of the New VIE Contracts, however be treated as connected persons of the Company, and transactions between these connected persons and the Company other than those under similar New VIE Contracts shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) *Ongoing reporting and approvals*

The Company will disclose details relating to the New VIE Contracts on an on-going basis as follows:

- the New VIE Contracts in place during each financial period will be disclosed in the Company's annual report and accounts in accordance with relevant provisions of the Listing Rules;

- the independent non-executive Directors will review the New VIE Contracts annually and confirm in the Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the New VIE Contracts and that the profit generated by the OPCO Group has been substantially retained by the Group; (ii) no dividends or other distributions have been made by the OPCO Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO Group during the relevant financial period under paragraph (d) above (if any) are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole;

- the Company's reporting accountants will carry out review procedures annually on the transactions carried out pursuant to the New VIE Contracts and will provide a letter to the Directors with a copy to the Stock Exchange, confirming that the transactions have received the approval of the Directors, have been entered into in accordance with the relevant New VIE Contracts and that no dividends or other distributions have been made by the OPCO Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group;

- for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", each member of the OPCO Group will be treated as a subsidiary of the Company, but at the same time, the directors, chief executives or substantial shareholders of each of the members of the OPCO Group and their respective associates will be treated as connected persons of the Company (excluding for this purpose, the OPCO Group), and transactions between these connected persons and the Group (including for this purpose, the OPCO Group), other than those under the New VIE Contracts, will be subject to the requirements under Chapter 14A of the Listing Rules; and

- each member of the OPCO Group will undertake that, for so long as the Shares are listed on the Stock Exchange, it will provide the Group's management and the Company's reporting accountants with full access to its relevant records for the purpose of the Company's reporting accountants' review of the continuing connected transactions.

II. OPINION OF THE INDEPENDENT FINANCIAL ADVISER

According to Rule 14A.52 of the Listing Rules, the term of the New VIE Contracts must be fixed and reflect normal commercial terms or better and not exceed three years except in special circumstances where the nature of the transaction requires a longer period. In view of the terms of the New VIE Contracts, Alliance Capital Partners Limited has been appointed as the independent financial adviser of the Company (the "**Independent Financial Adviser**") to explain why the New VIE Contracts require a longer period and to confirm that it is normal business practice for agreements of such type to be of such duration.

The Independent Financial Adviser is of the opinion that (i) in the case of the Exclusive Operation Service Agreement, a longer period being automatically renewed each time after the end of three years' term, and in the case of other New VIE Contracts, a longer period with indefinite term, are required for the New VIE Contracts to allow the Group to enjoy the economic benefits under the contractual arrangements as long as the New VIE Contracts are effective; and (ii) it is a normal business practice for agreements of such type to be of such duration.

To reach the opinion, the Independent Financial Adviser has considered the following principal factors and reasons:

(a) the Group is principally engaged in hospital management business and general hospital business in China, which fall within the "restricted" investment category of the Negative List. In addition, it is advised that the Company, as a foreign entity, shall not hold, directly or indirectly, more than 70% of the equity interests in any medical institution in Jiande City;

(b) in order to comply with the relevant PRC laws and regulations, the New VIE Contracts were entered into by Jiande Heyue with the PRC Equity Owners, the OPCO and Jiande Hospital in order to fully control Jiande Hospital, prevent leakages of equity and values to the minority shareholders of Jiande Hospital, and obtain 30% economic benefits of this medical institution attributable to the OPCO;

(c) it is not uncommon for foreign company to enter into similar arrangements, such as the New VIE Contracts, in order to comply with the relevant laws and regulations in the PRC to conduct hospital management business and general hospital business. The New VIE Contracts are narrowly tailored to achieve the business purposes of the Company and minimize the potential for conflict with relevant PRC laws and regulations;

(d) the New VIE Contracts will provide long-term binding contractual relationship which the Company will be able to enjoy the future economic interests and benefits derived from the OPCO while complying with the relevant laws and regulations; and

(e) having identified and reviewed not less than 10 announcements issued by companies listed on the Stock Exchange with arrangements similar to the New VIE Contracts (the "**Market VIE Contracts**"), the Independent Financial Adviser considered the Market VIE Contracts to be an appropriate reference for general market practice with duration being over three years with automatically renewed terms or indefinite terms.

III. ENTRY INTO THE NEW VIE CONTRACTS

The Board is pleased to announce that, on April 2, 2022, (i) the Termination Agreements have been entered into by Hangzhou Jingyouzhi, Hangzhou Jinhoupu, Mr. Hong Jiangxin and Mr. Hong Yang to terminate the Existing VIE Contracts; (ii) the New VIE Contracts have been duly executed; and (iii) the equity transfer in the OPCO from the Vendors to the PRC Equity Owners pursuant to the Associated Equity Transfer Agreement has been completed.

IV. FURTHER INFORMATION IN RELATION TO LEGALITY OF THE NEW VIE CONTRACTS AND PRC EQUITY OWNERS' SPOUSAL UNDERTAKING

Legality of the New VIE Contracts

As disclosed in the Announcement and according to our PRC legal adviser's legal opinion, the PRC Civil Code came into effect on January 1, 2021, which no longer specifies "concealing illegal intentions with a lawful form" as the statutory circumstances of a void contract but stipulates certain circumstances which will lead to the invalidation of civil juristic acts. The provisions on the validity of civil juristic acts also apply to the validity of contracts. As such, the New VIE Contracts would not fall within the above circumstances which will result in the invalidity of the New VIE Contracts. Please refer to the section headed "Effect and legality of the New VIE Contracts" in the Announcement for further details.

Our PRC legal adviser further confirms that the New VIE Contracts would not be deemed as "concealing illegal intentions with a lawful form" under the repealed PRC Contract Law (which has been replaced by the PRC Civil Code which came into effect on January 1, 2021).

Spousal Undertaking

The spouse of Mr. Qin Chuan (being one of the PRC Equity Owners), who is a married natural person, has executed an irrevocable undertaking prior to Completion when the New VIE Contracts executed on April 2, 2022 come into effect, whereby the spouse expressly and irrevocably acknowledges, undertakes and confirms that:

(i) the spouse would waive any claim on any equity interests in and related assets of the OPCO;

(ii) the spouse has consented to the entry into the New VIE Contracts by Mr. Qin Chuan and no additional authorization or consent is required from her for Mr. Qin Chuan to perform, change or terminate the New VIE Contracts;

(iii) the spouse would sign all necessary documents and take all necessary actions to ensure that the New VIE Contracts to be fully implemented in accordance with applicable laws; and

(iv) in the event that the spouse acquires any equity interests or assets of the OPCO held by Mr. Qin Chuan for any reasons, she would be bound by and would abide by the obligations under the New VIE Contracts, and for this purpose, upon request from Jiande Heyue, she would enter into a series of written documents in the same format and content as the New VIE Contracts.

As Mr. Liu Hui (being the other PRC Equity Owner) has no spouse, spousal undertaking is not applicable.

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

Beijing, China, April 3, 2022

As at the date of this announcement, the Directors of the Company are Mr. CHEN Shuai and Mr. LU Wenzuo, Mr. PU Chengchuan and Ms. Pan Jianli being the executive Directors; 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.