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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)

REVISED ANNUAL CAP FOR THE CONTINUING CONNECTED TRANSACTIONS IN 2021 AND NEW PROCUREMENT AGREEMENTS AND THE CONTINUING CONNECTED TRANSACTIONS IN 2022-2024

REVISION OF ANNUAL CAP OF THE MEDICAL CONSUMABLES AND EQUIPMENT PROCUREMENT AGREEMENT

Reference is made to the announcement of the Company dated 3 June 2019 in relation to the continuing connected transactions under the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement.

In view of its anticipated business development, Jiande Hospital will include some of the medical consumables and equipment originally purchased from other third parties into the scope

A. REVISION OF ANNUAL CAP OF THE MEDICAL CONSUMABLES AND EQUIPMENT PROCUREMENT AGREEMENT

A1. Background

Reference is made to the announcement of the Company dated 3 June 2019 in relation to the continuing connected transactions under the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement. In view of its anticipated business development, Jiande Hospital will include some of the medical consumables and equipment originally purchased from other third parties into the scope of procurement from Zhejiang Dajia, and taking into consideration the historical transaction amounts of such medical consumables and equipment purchased from third parties, the Board envisages that the Existing Consumables and Equipment Annual Caps for the financial year ending 31 December 2021 will not be sufficient.

A2. Supplemental Agreement to the Medical Consumables and Equipment Procurement Agreement

In view of the abovementioned background, on 12 July 2021, Jiande Hospital and Zhejiang Dajia entered into the Supplemental Agreement to revise the annual cap for the continuing connected transactions under the Medical Consumables and Equipment Procurement Agreement for the financial year ending 31 December 2021 from RMB9.0 million to RMB12.0 million.

Pursuant to the Medical Consumables and Equipment Procurement Agreement, the Existing Consumables and Equipment Annual Caps for the years ended 31 December 2019 and 2020 and the year ending 31 December 2021 were RMB7.0 million, RMB8.0 million and RMB9.0 million, respectively.

The audited historical amounts for the two years ended 31 December 2020 and unaudited historical amount for the six months ended 30 June 2021 under the Medical Consumables and Equipment Procurement Agreement were approximately RMB5.99 million, RMB5.66 million and RMB3.08 million, respectively.

The above Revised 2021 Consumables and Equipment Annual Cap for the year ending 31 December 2021 was determined with reference to (i) the historical amounts for the two years ended 31 December 2020 and six months ended 30 June 2021 under the Medical Consumables and Equipment Procurement Agreement; (ii) in light of the fact that Jiande Hospital will include some of the medical consumables and equipment originally purchased from other third parties into the scope of procurement from Zhejiang Dajia, the historical transaction amounts of the medical consumables and equipment purchased from the third parties; (iii) the anticipated demand of the Medical Consumables and Equipment of the Company in the second half of 2021; (iv) the current market prices of the Medical Consumables and Equipment; and (v) potential prices fluctuations.

Save for the revision of the Existing Consumables and Equipment Annual Caps for the year ending 31 December 2021, all other existing key terms and conditions of the Medical Consumables and Equipment Procurement Agreement shall remain unchanged.

B. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

B1. The New Medicine Procurement Agreement

As the Medicine Procurement Agreement will expire on 31 December 2021, on 12 July 2021, Jiande Hospital, an indirectly non-wholly owned subsidiary of the Company, entered into the New Medicine Procurement Agreement with Zhejiang Zhongyouli, to renew the continuing connected transactions contemplated under the Medicine Procurement Agreement for the three years ending 31 December 2024, 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 New Medicine Procurement Agreement.

(i) Principal terms of the New Medicine Procurement Agreement:

Date	:	12 July 2021
Parties	:	(1) Jiande Hospital as purchaser (2) Zhejiang Zhongyouli as supplier
Duration	:	for a three years' term ending 31 December, 2024 (unless terminated in accordance with the terms of the New Medicine Procurement Agreement)
Products	:	Medicines as required for the daily operation of Jiande Hospital from time to time
Pricing Terms	:	(1) Medicines listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province* (浙江省醫保支付價目錄) which is valid and in effect as at the time of the relevant purchase

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

- (2) Medicines not listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province* (浙江省醫保支付價目錄) which is valid and in effect as at the time of the relevant purchase

i. For each of the medicines listed in the Medicine and Medical Device Procurement Platform of Zhejiang Province* (浙江省藥械採購平台), the purchase price shall be determined in accordance with the purchase prices of the same medicines on such platform.

ii. For each of the medicines listed in the Medicine and Medical Device Procurement Platform of Zhejiang Province* (浙江省藥械採購平台), the purchase price shall be determined after negotiation and agreement between the parties to the New Medicine Procurement Agreement, which shall not be higher than the purchase price of the same medicine offered to other hospitals within Zhejiang Province.

(3) In any of the above cases, the purchase prices shall not be higher 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 Hospital shall settle the payment within 105 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

The audited historical amounts for the two years ended 31 December 2020 and unaudited amount for the six months ended 30 June 2021 under the Medicine Procurement Agreement were approximately RMB30.15 million, RMB17.51 million and RMB7.47 million, respectively. Due to the outbreak of the COVID-19 pandemic in early 2020, the general hospital service business of Jiande Hospital was affected in 2020. As a result, the historical amount under the Medicine Procurement Agreement for the year ended 31 December 2020 was lower than expected and recorded an unexpected decrease.

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

The annual caps in respect of the transactions contemplated under the New Medicine Procurement Agreement for each of the three financial years ending 31 December 2022, 31 December 2023 and 31 December 2024 are expected to be RMB50.0 million for each year, respectively. These annual caps have been determined by reference to (i) the value of the historical amounts for the two years ended 31 December 2020 and the six months ended 30 June 2021 under the Medicine Procurement Agreement; (ii) the anticipated demand for the Medicines of the Company for the three financial years ending 31 December 2022, 31 December 2023 and 31 December 2024, based on the business development of Jiande Hospital, as well as the expectation that the business of Jiande Hospital will gradually recover from the COVID-19 pandemic; (iii) the current market prices of the Medicines; and (iv) potential prices fluctuations.

B2. The New Medical Consumables and Equipment Procurement Agreement

As the Medical Consumables and Equipment Procurement Agreement will expire on 31 December 2021, on 12 July 2021, Jiande Hospital, an indirectly non-wholly owned subsidiary of the Company, entered into the New Medical Consumables and Equipment Procurement Agreement with Zhejiang Dajia to renew the continuing connected transactions contemplated under the Medical Consumables and Equipment Procurement Agreement for the three years ending 31 December 2024, 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 New Medical Consumables and Equipment Procurement Agreement.

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

- Date** : 12 July 2021
- Parties** : (1) Jiande Hospital as purchaser
(2) Zhejiang Dajia as supplier
- Duration** : for a three-years' term ending 31 December 2024 (unless terminated in accordance with the terms of the New Medical Consumables and Equipment Procurement Agreement)
- 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 in principle be not higher than the comparable fair market values or prices offered by independent third parties for the medical consumables and equipment to be purchased and will be determined by negotiation and agreement between the parties to the New Medical Consumables and Equipment Procurement Agreement with reference to:
- (1) For medical consumables and equipment listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province* (浙江省醫保支付價目錄) which is valid and in effect as at the time of the relevant purchase, the purchase price shall be determined in accordance with the supplying price of such medical consumables and equipment set out in such catalogue.
 - (2) For medical consumables and equipment not listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province* (浙江省醫保支付價目錄) which is valid and in effect as at the time of the relevant purchase.

- i. For each of the medical consumables and equipment listed in the Medicine and Medical Device Procurement Platform of Zhejiang Province* (浙江省藥械採購平台), the purchase price shall be determined in accordance with the price of the winning bid for the same medical consumables and equipment listed in such platform (which for this purpose excludes linked price and price under re-negotiation).
- ii. For each of the medical consumables and equipment not listed in the Medicine and Device Procurement Platform of Zhejiang Province* (浙江省藥械採購平台), the purchase price shall be determined after negotiation and agreement between the cons

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

The annual caps in respect of the transactions contemplated under the New Medical Consumables and Equipment Procurement Agreement for each of the three financial years ending 31 December 2022, 31 December 2023 and 31 December 2024 are expected to be RMB23.0 million, RMB25.0 million and RMB26.0 million, respectively. These annual caps have been determined by reference to (i) the value of the historical amounts for the two years ended 31 December 2020 and the six months ended 30 June 2021 under the New Medical Consumables and Equipment Procurement Agreement; (ii) the anticipated demand for the Medical Consumables and Equipment of the Company for the three financial years ending 31 December 2022, 31 December 2023 and 31 December 2024, based on the business development of Jiande Hospital, new medical specialties introduced and the increase in the number of operations cases of orthopedics, general surgery and cardiology as well as the expectation that the business of Jiande Hospital will gradually recover from the COVID-19 pandemic, (iii) the current market prices of the Medical Consumables and Equipment; and (iv) potential prices fluctuations.

C. REASONS FOR AND BENEFITS OF THE TRANSACTIONS UNDER THE SUPPLEMENTAL AGREEMENT AND NEW PROCUREMENT AGREEMENTS

The Group is principally engaged in hospital management business and general hospital business in the PRC. Jiande Hospital is a traditional Chinese medicines hospital that features the use of traditional Chinese medicines and provides comprehensive medical services.

The transactions contemplated under the Supplemental Agreement and New Procurement Agreements would meet the actual operational requirements of Jiande Hospital in relation to medicines and medical consumables and equipment, which can ensure and support its business operation.

The purchase of medicines from Zhejiang Zhongyouli and medical consumables and equipment from Zhejiang Dajia, respectively, is commercially beneficial to the Company and the Company could obtain competitive price while avoiding rising business risk and costs in its business operation for the following reasons:

1. As Zhejiang Zhongyouli has obtained the provincial or municipal sales agency rights for numerous types of medicines, and Zhejiang Dajia is a medical consumables and equipment supplier to numerous hospitals in Zhejiang Province that enjoys economies of scale and provides a higher variety of medical consumables and equipment, Jiande Hospital may purchase medicines from Zhejiang Zhongyouli and, medical consumables and equipment from Zhejiang Dajia, respectively, at a lower price to meet the requirements of its business operation;
2. Zhejiang Zhongyouli and Zhejiang Dajia provide the Company a longer credit period, and the longer credit period could significantly enhance the cash flow and financial position of the Company;

3. Zhejiang Zhongyouli and Zhejiang Dajia provide a more flexible cooperation mode and timing, which is conducive to the future adjustment of the business plan of the Company, such as securing the timely supply of medicines required for the operation of Jiande Hospital, providing more flexible delivery time and making the procurement mechanism more flexible, imposing less restrictions on the quantity and type of medicines to be purchased each time, and providing additional services to the Company (such as training on medicine knowledge).

The Directors (including the independent non-executive Directors) consider that the terms of the Supplemental Agreement and New Procurement Agreements and the transactions contemplated thereunder are fair and reasonable. The terms of the Supplemental Agreement and New Procurement Agreements (including the Revised 2021 Consumables and Equipment Annual Cap and the Renewed Annual Caps respectively set out thereunder), 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 Supplemental Agreement and the New Procurement 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 Supplemental Agreement and New Procurement Agreements and the transactions contemplated thereunder. Accordingly, none of the Directors is required to abstain from voting on the relevant board resolutions approving the entering into of the Supplemental Agreement and New Procurement Agreements and the transactions contemplated thereunder.

D. 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 16 March 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 owned as to 70% by the Company indirectly and 30% by Hangzhou Jinhoubao directly, and Hangzhou Jinhoubao is held as to 90% by Mr. Hong and 10% by Mr. Hong Yang.

Zhejiang Zhongyouli

Zhejiang Zhongyouli is a company established in Hangzhou with limited liability and is a medicine supplier in Zhejiang. Zhejiang Zhongyouli is directly held as to 49% by Mr. Hong and 51% by Mr. Hong Yang.

Zhejiang Dajia

Zhejiang Dajia is a company established in Hangzhou with limited liability and is a medical consumables and equipment supplier in Zhejiang. Zhejiang Dajia is a directly wholly-owned subsidiary of Zhejiang Xinxiangli which in turn is held as to 67% by Mr. Hong, 32% by Mr. Hong Yang and 1% by Ms. Hong.

E. LISTING RULES IMPLICATIONS

Mr. Hong is a substantial shareholder of Jiande Hospital, which is an indirectly non-wholly owned subsidiary of the Company and hence, Mr. Hong is a connected person of the Company. Zhejiang Zhongyouli is directly held as to 49% by Mr. Hong and 51% by Mr. Hong Yang and Zhejiang Dajia is a directly wholly-owned subsidiary of Zhejiang Xinxiangli which in turn is held as to 67% by Mr. Hong, 32% by Mr. Hong Yang and 1% by Ms. Hong. Therefore, Zhejiang Zhongyouli and Zhejiang Dajia are both associates of Mr. Hong under the Listing Rules. Accordingly, Zhejiang Zhongyouli and Zhejiang Dajia are connected persons of the Company under the Listing Rules. As such, the transactions contemplated under each of the Existing Agreements, Supplemental Agreement and New Procurement 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 each of the (i) 2021 Medicines Annual Cap and Revised 2021 Consumables and Equipment Annual Cap and (ii) the Renewed Annual Caps on an aggregated basis exceeds 5%.

As Zhejiang Zhongyouli and Zhejiang Dajia are connected persons at the subsidiary level, the transactions contemplated under each of the Existing Agreements, Supplemental Agreement and New Procurement 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 Supplemental Agreement and New Procurement Agreements; and confirmed that the Supplemental Agreement and New Procurement 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 Revised 2021 Consumables and Equipment Annual Cap and the Renewed Annual Caps respectively set out thereunder) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

F. DEFINITIONS

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

“2021 Medicines Annual Cap”	the annual cap for the transactions contemplated under the Medicine Procurement Agreement for the year ending 31 December 2021 as set out in the announcement of the Company dated 3 June 2019
“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
“Existing Agreements”	the Medical Consumables and Equipment Procurement Agreement and Medicine Procurement Agreement
“Existing Consumables and Equipment Annual Caps”	the annual cap(s) for the transactions contemplated under the Medical Consumables and Equipment Procurement Agreement for each of the three years ending 31 December 2021 as set out in the announcement of the Company dated 3 June 2019
“Group”	the Company and its subsidiaries
“Hangzhou Jinhoubao”	Hangzhou Jinhoubao Enterprise Management Co., Ltd.* (杭州金厚樸企業管理有限公司), a company incorporated under the laws of the PRC with limited liability
“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 Hangzhou Jinhoubao directly, and Hangzhou Jinhoubao is in turn held as to 90% by Mr. Hong and 10% by Mr. Hong Yang
“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 3 June 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 and the New Medical Consumables and Equipment Procurement Agreement
“Medicines”	certain types of medicines to be purchased pursuant to the Medicine Procurement Agreement and the New Medicine Procurement Agreement
“Medicine Procurement Agreement”	the agreement entered into on 3 June 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
“Mr. Hong”	Hong Jiangxin (洪江鑫)
“Mr. Hong Yang”	Hong Yang (洪楊)
“Ms. Hong”	Hong Lijuan (洪麗娟)
“New Medical Consumables and Equipment Procurement Agreement”	the agreement entered into on 12 July 2021 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
“New Medicine Procurement Agreement”	the agreement entered into on 12 July 2021 between Jiande Hospital and Zhejiang Zhongyouli, pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Zhongyouli agreed to sell, certain types of medicines
“New Procurement Agreements”	the New Medical Consumables and Equipment Procurement Agreement and New Medicine Procurement Agreement
“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

“Renewed Annual Caps”	the annual caps for the transactions contemplated under the New Procurement Agreements for the three years ending 31 December 2024
“Revised 2021 Consumables and Equipment Annual Cap”	the annual cap for the transactions contemplated under the Medical Consumables and Equipment Procurement Agreement for the year ending 31 December 2021 as revised pursuant to the Supplemental Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement entered into on 12 July 2021 between Jiande Hospital and Zhejiang Dajia which amended and supplemented the Medical Consumables and Equipment Procurement Agreement
“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), a company incorporated under the laws of the PRC with limited liability
“Zhejiang Zhongyouli”	Zhejiang Zhongyouli Medicines Co., Ltd.* (浙江中友力醫藥有限公司), a company incorporated under the laws of the PRC with limited liability
“%”	per cent.

* For identification purpose only

By order of the Board
Hospital Corporation of China Limited
Chen Shuai
Chairman and Acting Chief Executive Officer

Beijing, China, 12 July 2021

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