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## **Hospital Corporation of China**

The Group is able to exercise its influence over the operational and managerial decisions of Jinhua Hospital based on the following management rights under the articles of association of Jinhua Hospital:

- (i) right to nominate six out of the seven members in the executive committee of Jinhua Hospital, one of which shall be nominated according to the results of the labour union election;
- (ii) among these executive committee members nominated, one of them is the chairman of the executive committee;
- (iii) entitled to nominate the hospital administrator, finance manager and the supervisor of Jinhua Hospital.

Jinhua Hospital, as a not-for-profit hospital, is different from for-profit hospitals. The founder of Jinhua Hospital is not entitled to the rights to dividend or the remaining assets after liquidation available under the laws and regulations of the PRC. The remaining assets shall be used for public welfare purposes in accordance with its articles of association or under the decision of its governing body. Where the remaining assets is unable to be used in accordance with the articles of association of Jinhua Hospital or under the decision of its governing body, the remaining assets shall be transferred to legal entities with the same or similar purposes under the auspices of the competent governmental authority and announced to the public. As such, given Jinhua Hospital's nature as a not-for-profit hospital with its current articles of association, the Company is not considered to be the ultimate beneficial owner of Jinhua Hospital. Accordingly, Jinhua Hospital is a third party independent of the Company and connected persons of the Company.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE GUARANTEE AGREEMENT**

The Group principally engages in hospital management business and general hospital business in the PRC, and the revenue growth of the Group relies on the business growth and value enhancement of hospitals owned, managed and founded by the Group.

The provision of the Corporate Guarantee will enable Jinhua Hospital to secure funding from the Bank for the purposes as disclosed under the section headed "Reasons for and benefits of entering into the Guarantee Agreement" in the Announcement, which is expected to contribute to the growth and development of Jinhua Hospital. The obtaining of funds from the Bank by Jinhua Hospital will enhance its competitiveness in the medical and healthcare industry, and enable Jinhua Hospital to maintain or even increase its market share.

As the Group receives management service fees in respect of the provision of management and consultancy services to Jinhua Hospital, and the level of management service fees received is in turn based on the operating revenue of Jinhua Hospital, the sustainable and steady development of Jinhua Hospital will ultimately be beneficial to the sustainability and growth of the management fees income of the Group.

While Jinhua Hospital has credit available and may apply for loans from the Group pursuant to the Existing 2020 Loan Agreement (as disclosed in the section headed “the Existing 2020 Loan” in the Announcement), the Directors are of the view that obtaining credit facilities from the Bank will diversify the source of financing for Jinhua Hospital and be more beneficial to the control of financial risks. This will also be in line with the overall cash flow management of the Group, and beneficial to the economic interests of the Group as a whole.

The Group has made the decision not to charge any fee from providing the Corporate Guarantee to Jinhua Hospital in consideration of the contractual relationship between the Group and Jinhua Hospital as well as the overall interests of the Group.

Given that Jinhua Hospital is under the management of the Group, which allows the Company to closely monitor the business and financial conditions of Jinhua Hospital, this has enabled the Directors to assess the credit risk of Jinhua Hospital associated with the Repayment Obligations.

As disclosed in the Announcement, the Company will only incur liabilities upon a call on the Corporate Guarantee arising from an event of default of Jinhua Hospital on the Repayment Obligations. The Directors are of the view that the probability of an event of default of Jinhua Hospital on the Repayment Obligations is remote for the following reasons:

- (i) in previous years, Jinhua Hospital has repaid the principal and interest of its bank loans on a timely basis and has good credit standing; furthermore, Jinhua Hospital did not have any material adverse developments such as overdue loans, interest in arrears or non-performing debts on bank loans obtained by Jinhua Hospital;
- (ii) the bank loan obtained by Jinhua Hospital is mainly used for purpose of maintaining its day-to-day business operations and other expenses related to its business operations; in previous years, the business operations of Jinhua Hospital has been stable;
- (iii) taking into account the actual financial condition of Jinhua Hospital, Jinhua Hospital has sufficient sources for repayment; and
- (iv) the Group is able to exercise its influence over the operational and managerial decisions of Jinhua Hospital to keep track of the funds account of Jinhua Hospital, closely monitor the operational stability and cash flow of Jinhua Hospital, and supervise, manage and ensure the fulfillment of the Repayment Obligations.

