

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Ms. Xu Xiaojie will, through Speed Key Limited, beneficially own approximately 34.51% of the Shares. Ms. Xu Xiaojie is the daughter of Ms. Xu Jie, our founder. As a result, Ms. Xu Jie, Ms. Xu Xiaojie and Speed Key Limited are our Controlling Shareholders.

Ms. Xu Jie, our founder, established our Group in 2007. For more details on the establishment of the Group, see “History and Reorganization — Our History — History of Beijing Phoenix”. For more details on Ms. Xu Jie’s bios, see “Directors and Senior Management — Directors — Executive Directors”. Speed Key Limited is an investment holding company wholly owned by Ms. Xu Xiaojie. As at the Latest Practicable Date, our Controlling Shareholders do not hold shares in any listed companies to the extent subject to reporting or disclosure requirements in that jurisdiction.

YAN HUA HOSPITAL GROUP

Ms. Xu Xiaojie and Ms. Xu Jie collectively own the entire equity interest in Beijing Wantong. Beijing Wantong indirectly owns the entire equity interest in Yan Hua Phoenix, which is the owner (舉辦人) of Yan Hua Hospital Group. Apart from Ms. Xu Jie, none of our Directors or members of our senior management holds any position in Speed Key Limited, Beijing Wantong or Yan Hua Phoenix. For details of transactions between us and Yan Hua Hospital Group, see “Connected Transactions — Non-exempt Continuing Connected Transactions with Yan Hua Hospital Group”.

Pursuant to the Yan Hua IOT Agreement we entered into with Yan Hua Hospital Group, we have agreed to invest in Yan Hua Hospital Group and provide management services to Yan Hua Hospital in return for the right to manage Yan Hua Hospital Group and to receive annual management fees until July 17, 2055. For more details on the management fees, see “Connected Transactions — Non-exempt Continuing Connected Transactions with Yan Hua Hospital Group”. Yan Hua Hospital Group is managed by the executive committee which consists of five members, four of whom are appointed by Yan Hua Phoenix and one of whom is elected by an employee committee. The executive committee exercises key decision-making powers over important business decisions at Yan Hua Hospital Group, such as the approval of annual hospital budgets and major investments, the establishment of new departments and the hiring of key personnel. Matters before the executive committee are decided by a simple majority of all executive committee members, and each member of the executive committee has one vote.

For more details regarding the business and operations of Yan Hua Hospital Group, see “— Business — Our Hospital Network — Yan Hua Hospital Group”.

REASONS FOR EXCLUDING YAN HUA HOSPITAL GROUP FROM OUR GROUP

Since Yan Hua Hospital Group is a not-for-profit hospital registered as a private non-enterprise organization (民辦非企業單位), the owner (舉辦人) of Yan Hua Hospital Group is not entitled under PRC laws, rules and regulations, to the right of dividends or the profits, cash flow or residue assets upon liquidation. As advised by our PRC legal adviser, while there are no legal restrictions for our Controlling Shareholders to inject Yan Hua Hospital Group into the Group as a not-for-profit hospital, such injection does not entitle our Group to share

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

its profits nor to receive its dividends, which is not aligned with the nature of our Company. On the contrary, it is in the best interest of our Group to own for-profit hospitals or assets in order to share economic benefits generated by those hospitals or assets. Hence, the Group currently only owns the Jian Gong Hospital, which is a for-profit hospital. Further, since there are no additional economic benefits out of owning Yan Hua Hospital outright, it would not be in our Groups' interests to make payment to the owners of Yan Hua Phoenix based on the appraised value of Yan Hua Phoenix, as the Group would have spent cash as consideration to purchase Yan Hua Phoenix for no additional economic benefits. As a result, we decided not to include Yan Hua Hospital Group in our Group. The Directors are also of the view that including Yan Hua Hospital Group as part of our Group is not in the best interests of our Shareholders in the near future. Accordingly, Yan Hua Hospital Group is not and will not form part of our Group following the completion of the Reorganization and the Global Offering so long as Yan Hua Hospital remains as a not-for-profit hospital.

POTENTIAL COMPETITION

The Group may face potential competition from Yan Hua Hospital on the following aspects:

- Yan Hua Hospital and other hospitals that the Group manage provide general hospital service in Beijing. The Group has no control over individual patients who potentially can opt to visit Yan Hua Hospital instead of other hospitals of our Group; and
- Yan Hua Hospital and our Group may potentially compete for doctors, other medical professionals and management staff, as both Yan Hua Hospital and our Group recruit primarily in Beijing.

Our Company believes the above potential competition does not materially and adversely affect the Group because:

- under the Yan Hua IOT Agreement, the Group is entitled to manage Yan Hua Hospital and, accordingly, the Group is able to operate Yan Hua Hospital in the best interest of the Group and effectively avoid any operational decisions of Yan Hua Hospital that potentially compete with the Group;
- as Yan Hua Hospital is a not-for-profit hospital, Yan Hua Hospital Group's owner (舉辦人), which is an associate of our Controlling Shareholders, will not receive any economic interests through dividends or distributions and hence there is no economic incentive for Yan Hua Hospital Group to compete with the Group;
- Yan Hua Hospital Group agreed to pay us annual management fees solely based on the financial performance of Yan Hua Hospital Group. As a result, the economic interests of our Group and Yan Hua Hospital Group are aligned in terms of the operations of Yan Hua Hospital Group. We manage Yan Hua Hospital and other hospitals of the Group collectively in the best economic interests of the Group as a whole;
- Yan Hua Hospital are located in Fangshan District of in Beijing, which is separate from other in-network hospitals of our Group. We believe generally patients tend to visit hospitals that are in close proximity to their residence. Therefore, potential competition due to geographical overlap within Beijing is limited;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- as we manage Yan Hua Hospital as part of our hospital network, we cause Yan Hua Hospital Group and our other in-network hospitals to share human resources and medical knowledge across our hospital network, rather than having each in-network hospitals compete with each other for doctors, other medical professionals and management staff. For more details, see “Business — Our Competitive Strengths — Innovative Business Model Capturing Multiple Parts of the Value Chain and Realizing Synergies”; and
- each of the Controlling Shareholders has undertaken not to engage in, or interested in any business which may compete with our business. In addition, each of the Controlling Shareholders has undertaken to us that (i) upon termination of the Yan Hua IOT Agreement; or (ii) upon Yan Hua Hospital becomes a for-profit hospital, each of them shall transfer all their interests in Yan Hua Phoenix to Beijing Phoenix. For more details, see “— Non-Voting and Non-Competition Undertakings”.

DELINEATION OF BUSINESS

We believe there is clear delineation between our Group and the Yan Hua Hospital Group for the following reasons:

- Yan Hua Hospital Group and our Group have independent financial systems. We manage and have access to the financial systems of Yan Hua Hospital Group in order to ascertain the level of management fees payable to us pursuant to the Yan Hua IOT Agreement;
- the Group and Yan Hua Hospital Group have independent human resources systems with different operational personnel and staff. These personnel and staff are paid by their respective employers;
- we manage Yan Hua Hospital pursuant to the Yan Hua IOT Agreement, and accordingly Yan Hua Hospital Group rely on us to provide management services. However, on the contrary, we do not rely on the management personnel of Yan Hua Hospital for the Group’s daily operations; and
- our Controlling Shareholders have undertaken not to compete with Group. For more details, see “— Non-Voting and Non-Competition Undertakings”.

Based on the above, our Directors are of the view that there is a clear delineation between the Yan Hua Hospital Group and the Group and do not expect any overlap between Yan Hua Hospital Group and our Group after Listing.

Other than those disclosed in this section, our Controlling Shareholders, Beijing Wantong and Yan Hua Phoenix and their associates are not engaged in any healthcare or hospital management related activities in China.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

NON-VOTING AND NON-COMPETITION UNDERTAKINGS

As the owner (舉辦人) of Yan Hua Hospital Group, Yan Hua Phoenix is entitled to nominate members to the executive committee of the Yan Hua Hospital Group. Our Controlling Shareholders, Beijing Wantong and Yan Hua Phoenix have provided a non-voting undertaking in favor of the Group in the event there is any conflict or competition or potential conflict or potential competition between Yan Hua Hospital Group and the Group, our Controlling Shareholders, Beijing Wantong and Yan Hua Phoenix shall procure the members of the executive committee nominated by Yan Hua Phoenix to abstain from voting.

In addition, each Controlling Shareholder has confirmed that it or she is not engaged in, or interested in any business which, directly or indirectly, competes or may compete with our business. In accordance with the non-competition undertakings set out in the deed of non-competition dated the date of this prospectus, each of the Controlling Shareholders has undertaken to our Company (for itself and on behalf of its subsidiaries) that during the period commencing from the Listing Date and ending on the occurrence of the earliest of (i) the day on which our Shares cease to be listed on the Stock Exchange or other recognized stock exchange; (ii) the day on which the Controlling Shareholders cease to be controlling shareholders of our Company; and (iii) the day on which the Controlling Shareholders beneficially own or are interested in the entire issued share capital of our Company:

- Each of them will not and will procure that none of her/its associates, spouse and children under the age of 18 and persons to whom each of them provides financial assistance to set up and operate businesses (the "Controlled Persons") or any companies in the equity capital of which each of the Controlling Shareholders, her family interests and/or any trustee interests taken together are interested (directly or indirectly) so as to exercise or control the exercise of 30% or more of the voting power at general meetings, or companies in which each of the Controlling Shareholders, her family interests and/or any trustee interests controls the composition of a majority of the board of directors of such companies (the "Controlled Companies") will, except through her/its interests in our Company, whether as principal or agent and whether undertaken directly or indirectly through any person, body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or is likely to be in competition with the business of our Group as described in this prospectus and any other business from time to time conducted by any member of our Group or in which any member of our Group is engaged or has invested in, or entered into any of intent or memorandum of understanding to enter into, or which our Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement), within the PRC or any of the territories where any member of our Group carries and/or will carry on business from time to time (the "Restricted Business");

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- If she/it and/or any of her/its respective associates, and/or any of the Controlled Persons and/or any of the Controlled Companies is offered or becomes aware of any potential business opportunity directly or indirectly to engage or become interested in a Restricted Business, she/it:
 - (a) shall promptly notify our Company in writing and refer such business opportunity to our Company for consideration and provide such information as may be reasonably required by our Company in order to make an informed assessment of such business opportunity; and
 - (b) shall not and shall procure that her/its associates and/or Controlled Persons and/or Controlled Companies shall not, invest or participate in any such project or business opportunity unless such project or business opportunity shall have been rejected by our Company and the principal terms of which each of the Controlling Shareholder or her/its associates and/or Controlled Persons and/or Controlled Companies invest(s) or participate(s) are no more favorable than those made available to our Company.

In addition, Ms. Xu Jie, our executive Director, has undertaken to us that she will devote sufficient time and efforts to discharge her fiduciary duties and responsibilities as our Director.

Each Controlling Shareholder undertakes that she will not and will procure that none of her respective associates and/or the Controlled Persons and/or the Controlled Companies shall:

- At any time induce or attempt to induce any director, manager or employee or consultant of any member of our Group to terminate his or her employment or consultancy (as appropriate) with our Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy (as appropriate);
- At any time employ any person who has been a director, a manager, employee of or consultant to any member of our Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Restricted Business; or
- Alone or jointly with any other person, or as manager, adviser, consultant, employee or agent for or shareholder in any person, firm or company, in competition with any member of our Group, canvass, solicit or accept order from or do business with any person with whom any member of our Group has done business or solicit or persuade any person who has dealt with our Group or is in the process of negotiating with our Group in relation to the Restricted Business to cease to deal with our Group or reduce the amount of business which the person would normally do with our Group or seek to improve their terms of trade with any member of our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Under the deed of non-competition, each of the Controlling Shareholders has also undertaken to offer to transfer all its interests in Yan Hua Phoenix to Beijing Phoenix upon either (i) termination of the Yan Hua IOT Agreement or (ii) Yan Hua Hospital is re-classified as for-profit hospital. The transfer and the terms and conditions of the transfer shall be subject to approval by our independent shareholders as described below. For more details on the termination events of the Yan Hua IOT Agreement, see “Connected Transaction — Non-exempt Continuing Connected Transactions with Yan Hua Hospital Group — (A) Yan Hua IOT Agreement — Termination of the Yan Hua IOT Agreement”.

Furthermore, our Controlling Shareholders will offer to sell, or will procure her/its respective associates, and/or any of her/its Controlled Persons and/or Controlled Companies to offer to sell, to Beijing Phoenix, all of their respective interests in Yan Hua Phoenix at least once in each financial year commencing from January 1, 2014 (the “Annual Offer Arrangement”). If our Group (i) elects to accept the offer but the acquisition of the interests in Yan Hua Phoenix is not completed by the Group for any reason or (ii) does not accept the offer or does not respond to the offer within its specified time, Yan Hua Phoenix will remain subject to the Annual Offer Arrangement in subsequent years.

Where our Group elects to accept the offer, the terms and conditions of such transfer shall be subject to approval by our independent Shareholders in an extraordinary general meeting. The consideration of such transfer will be the average appraised value under the valuation reports conducted by two independent valuers, who shall be appointed by our independent non-executive Directors. As the transfer is a connected transaction, we shall comply with Chapter 14A of the Listing Rules applicable at the time of the transfer.

Each Controlling Shareholder further undertakes, jointly and severally, to indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Group arising out of or in connection with any breach of covenants and undertakings and/or any of the obligations of the Controlling Shareholder under the deed of non-competition, including any costs and expenses incurred as a result of such breach.

The implementation of the deed of non-competition will be governed and monitored as follows:

- our independent non-executive Directors will be responsible for deciding, without attendance by any executive Director (except as invited by our independent non-executive Directors to assist them or provide any relevant information but in no circumstances shall the executive Director(s) participate in such meeting be counted towards the quorum or allowed to vote in such meeting), whether or not to take up a new business opportunity referred to us under the terms of the deed of non-competition.
- the independent non-executive Directors will be granted full access of financial information and other information they request from the managers of the Company and Controlling Shareholders in order to make an informed decision. The independent non-executive Directors will make each decision based on any factors they consider appropriate and which they consider is beneficial to the Group.
- our independent non-executive Directors may employ an independent financial advisor as they consider necessary to advise them on the terms of any new business opportunity or the options.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- each of the Controlling Shareholders undertakes to keep us informed and shall procure her/its respective associates, Controlled Persons and Controlled Companies to keep us informed, of new business opportunities and to provide all information reasonably required by the independent non-executive Directors to assist them in their consideration of any new business opportunity.
- our independent non-executive Directors will also review, on an annual basis, the implementation of the deed of non-competition and any decisions in relation to new business opportunities referred to us, and state their basis and reasons in our Company's annual report.
- after the Listing, our Directors will continue to disclose details of any potential competing interests in our annual reports to shareholders.
- if there is any new detail regarding any potential competition as disclosed in this prospectus, our directors will disclose such details in our annual reports to shareholders.

In the event that our Company decides not to proceed with any particular projects or business opportunities and that our Controlling Shareholders or her/its Controlled Persons and/or Controlled Companies decides to proceed with such a project or business opportunity, we will announce such decision by way of an announcement setting out therein the basis for us not taking the project or the business opportunity.

DEED OF INDEMNITY

Our Controlling Shareholders have entered into a deed of indemnity in favor of the Group. For more details, see "Statutory and General Information — F. Other Information — 2. Deed of Indemnity"

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that our Group is capable of conducting our business independently from our Controlling Shareholders and their respective associates (other than our Group) after Listing for the following reasons:

Management Independence

Our Board comprises five executive Directors, two non-executive Directors and four independent non-executive Directors. Although our Controlling Shareholders retain a controlling interest in our Company, Ms. Xu Jie only constitutes a minority of our Board. Decisions are made by the Board in a collective manner. Except for Ms. Xu Jie, all of the members of the Board are independent of our Controlling Shareholders, and there is no overlap of directorships between our Company and the Controlling Shareholders. We consider that our Board will function independently from our Controlling Shareholders because:

- each Director is aware of his or her fiduciary duties as a Director of the Company which requires, among other things, that he or she acts for the benefit and in the best interests of the Company and does not allow any conflict between his or her duties as a Director and his/her personal interest;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- in the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Company and our Directors or their respective associates, the interested Director(s) is/are obliged to declare and fully disclose such potential conflict of interest and shall abstain from voting at the relevant Board meetings of the Company in respect of such transactions and shall not be counted in the quorum; in addition, our Controlling Shareholders have procured its nominated members of the executive committee of Yan Hua Hospital to abstain from voting if there is any potential conflict between Yan Hua Hospital Group and the Company; and
- our Board comprises eleven Directors and four of them are independent non-executive Directors, which represents more than one-third of the members of the Board. Such composition is in line with or better than the current corporate governance best practices in Hong Kong according to the Listing Rules. In particular, our independent non-executive Directors include professionals such as lawyers and accountants. We believe our independent non-executive Directors are able to oversee the Board to ensure there is no potential conflict of interests or competition with our Controlling Shareholders.

Operational Independence

As of the Latest Practicable Date, we had our own independent operation capabilities and independent management systems. We are also in possession of all necessary relevant licenses, approvals and certificates, to carry on and operate our business and we have sufficient operational capacity in term of capital and employees to operate and manage independently. We do not rely on any operational or administration resources of Beijing Wantong or Yan Hua Phoenix, and we manage the operations and administrations of Yan Hua Hospital Group pursuant to the Yan Hua IOT Agreement. We and Yan Hua Hospital Group have independent human resources systems and different operational personnel and staff. Those personnel and staff are paid by their respective employers.

Financial Independence

We are financially independent from our Controlling Shareholders and their associates. All loans, advances and balances due to and from our Controlling Shareholders and their respective associates (e.g., the shareholder loan granted by Speed Key Limited to our Company) will be fully settled and that all share pledges and guarantees provided by our Controlling Shareholders and their respective associates on our Group's borrowing will be fully released upon Listing. In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing.

Our Directors are satisfied that we are capable of conducting our business independently from any of our Controlling Shareholders (including their respective associates) after our Company is listed on the Stock Exchange.