

CONNECTED TRANSACTIONS

CONNECTED PERSON RELATIONSHIP

Ms. Xu Xiaojie and Ms. Xu Jie, our Controlling Shareholders, collectively own the entire equity interest in Beijing Wantong. Beijing Wantong indirectly owns the entire equity interest in Yan Hua Phoenix, which in turn is the owner (舉辦人) of Yan Hua Hospital Group. As such, Yan Hua Phoenix and Yan Hua Hospital Group are “connected persons” under the Listing Rules. Yan Hua Hospital Group, Beijing Phoenix and Yan Hua Phoenix entered into an IOT agreement regarding the management of Yan Hua Hospital Group on February 4, 2008.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS WITH YAN HUA HOSPITAL GROUP

(A) Yan Hua IOT Agreement

Beijing Phoenix, our wholly-owned subsidiary, Yan Hua Hospital Group and Yan Hua Phoenix entered into a hospital management right and investment framework agreement on February 1, 2008, and a hospital investment management agreement on February 4, 2008, which were supplemented in April 2008, December 2010, June 2011, June 2013, July 2013, September 2013 and October 2013 respectively (collectively, the “Yan Hua IOT Agreement”). Pursuant to the Yan Hua IOT Agreement, Beijing Phoenix agreed to (i) pay Yan Hua Phoenix an amount of RMB72 million (the “Consideration”) and (ii) invest a total of RMB150 million (the “Investment”) into Yan Hua Hospital Group prior to 2015, in exchange for the right to manage Yan Hua Hospital and to receive management fees from Yan Hua Hospital Group until July 17, 2055 (the “Management Fees”). The term of the Yan Hua IOT Agreement is subject to approval by our independent Shareholders every three years. For financial impact in the event approval is not obtained, see “Financial Information — Critical Accounting Policies — Receivables from IOT hospitals” and “Financial Information — Critical Accounting Policies — Intangible Assets”.

Management Fee Structure

The calculation of annual Management Fees is based on the following formula (the “Management Fee Formula”): a fixed percentage of the first RMB150 million of the annual revenue of Yan Hua Hospital Group, *plus* a higher fixed percentage of the annual revenue in excess of RMB150 million *less* the amount of the relevant Investment Repayment (as defined in “— Consideration, Investments Amounts and Repayment of Investments” below). In any given period, the Management Fees we are entitled to should not exceed the Yan Hua Hospital Group’s net income before tax (收支結餘) and the Investment Repayment. The Management Fee Formula is set based on arm’s length negotiation among the parties. The Management Fees in 2010, 2011, 2012 and the six months ended June 30, 2013 were approximately RMB16.3 million, RMB18.0 million, RMB22.6 million and RMB1.9 million, respectively.

Annual Cap on Future Management Fees and Investment Repayment

In accordance with Rule 14A.35(2) of the Listing Rules, the Company has set annual caps on the maximum Management Fees and Investment Repayment under the Yan Hua IOT Agreement. The annual caps of the Management Fees and Investment Repayment under the Yan Hua IOT Agreement for each of 2013, 2014 and 2015 are RMB17.8 million (of which RMB1.8 million is Investment Repayment, as defined below), RMB28.5 million (of which RMB2.0 million is Investment Repayment) and RMB37.4 million (of which RMB3.6 million is Investment Repayment) respectively. The annual cap for 2013 is estimated with reference to (i) the Management Fees for the first six months of 2013; (ii) the Management Fees for the

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second six months in 2012 of RMB16.3 million, which demonstrates that a significant portion of Management Fees is typically recognized in the second half of the financial year; (iii) the projected revenue of Yan Hua Hospital from July 1 to December 31, 2013, taking into account the financial performance of Yan Hua Hospital Group as compared to the same months in 2012; (iv) the expected Investment Repayment amount in 2013. The annual caps of the Management Fees for 2014 and 2015 are estimated primarily based on (i) the Management Fee Formula, (ii) the historical and expected annual revenue of Yan Hua Hospital Group and (iii) the expected Investment Repayment amount. The Group has not factored into the annual caps any potential loss top-up payments (for more details, see “— Loss Top-Up Obligations”) for each of 2013, 2014 and 2015.

Consideration, Investment Amounts and Repayment of Investments

As of the Latest Practicable Date, the Consideration has been paid in full. The carrying amount of that initial investment (the “Carrying Amount”) under the Yan Hua IOT Agreement is determined as if the Consideration is amortized equally over the IOT term of 48 years. Yan Hua Phoenix has undertaken to reimburse Beijing Phoenix the Carrying Amount upon termination or discontinuation of the Yan Hua IOT Agreement. Ms. Xu Xiaojie and Ms. Xu Jie have jointly and severally guaranteed the performance of the above undertaking. As of June 30, 2013, the carrying amount of the intangible assets related to the initial investment for acquisition of the management right of Yan Hua Hospital paid to Yan Hua Phoenix was RMB63.7 million.

Beijing Phoenix made the Investment which is repayable in Yan Hua Hospital Group in the amount of RMB57 million in 2011, RMB20 million in 2012 and, as of September 30, 2013, RMB10 million in 2013.

Pursuant to the Yan Hua IOT Agreement, Yan Hua Hospital Group shall repay the Investment made in the past by Beijing Phoenix (the “Investment Repayment”). An Investment made in the current year by Beijing Phoenix will be repaid by Yan Hua Hospital Group starting from the year after in equal installments annually until the end of the term of the Yan Hua IOT Agreement. For example, the RMB57 million Investment made in 2011 will be repaid from 2012 to 2055 annually in equal installments, the RMB20 million Investment made in 2012 will be repaid from 2013 to 2055 annually in equal installments. Nil Investment Repayment was made in 2010 and 2011, and in 2012, the Investment Repayment amounting to approximately RMB1.3 million was made. The amount of Investment Repayment made in the six months ended June 30, 2013 was nil. The discontinuation or termination of the Yan Hua IOT Agreement would not affect the Investment Repayment schedule.

Loss Top-Up Obligations

Pursuant to the Yan Hua IOT Agreement, Beijing Phoenix agreed to compensate Yan Hua Hospital Group of any losses incurred by Yan Hua Hospital Group in any calendar year such that Yan Hua Hospital Group would break even in that calendar year by setting off the compensation against the Management Fees in that calendar year. If the Management Fees in that year is insufficient, the compensation will be set off against the Management Fees in subsequent years until the loss is fully compensated. To date, Beijing Phoenix has not paid any such compensation to Yan Hua Hospital. In any event, Yan Hua Hospital Group and Yan Hua Phoenix have signed an undertaking dated the date of this prospectus that they will not enforce any loss top-up payment from Beijing Phoenix for as long as the Yan Hua IOT Agreement remains in force.

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Termination of the Yan Hua IOT Agreement

Under the occurrence of any of the following, Yan Hua Hospital Group and Yan Hua Phoenix may terminate the Yan Hua IOT agreement unilaterally and claim compensation from us if we:

- violate any relevant laws, rules or regulations during the provision of management services, causing serious harm or impact over the operation or business of Yan Hua Hospital Group as a result of any penalty or investigation by the governmental department in charge of industry and commerce, health and hygiene, healthcare services and pharmacy or environmental protection;
- manage Yan Hua Hospital Group in conspiracy with any third party, causing serious harm to the Yan Hua Hospital Group; or
- cause serious harm to Yan Hua Hospital Group by any other acts.

We may unilaterally terminate the Yan Hua IOT Agreement and seek damages from Yan Hua Hospital Group and Yan Hua Phoenix if any of the following occurs:

- the business conducted by Yan Hua Hospital Group lacks requisite licenses or permits and cannot be carried out despite remedial measures;
- Yan Hua Hospital Group and Yan Hua Phoenix withhold information concerning Yan Hua Hospital Group's assets, debt, business activities or other information that would affect the operation of Yan Hua Hospital Group or information concerning the occurrence of any event that may seriously undermine the management of Yan Hua Hospital Group by us;
- Yan Hua Hospital Group and Yan Hua Phoenix exercise management authority in a manner contrary to our instructions, or intentionally undermine our management activities to a significant extent; or
- Yan Hua Hospital Group does not pay us the Management Fees on time.

The Yan Hua IOT Agreement may also be terminated with the parties' consent. We do not anticipate termination of the Yan Hua IOT Agreement in the near future. For financial impact in the event the Yan Hua IOT Agreement is terminated, see "Financial Information — Critical Accounting Policies — Receivables from IOT hospitals" and "Financial Information — Critical Accounting Policies — Intangible Assets".

Listing Rule Implications of the Management Fees and Investment Repayment

Based on the annual caps set by the Company, the highest relevant percentage ratios in respect of the Management Fees and Investment Repayment under the Yan Hua IOT Agreement will be, on an annual basis, more than 0.1% but less than 5%. Accordingly, the transactions under the Yan Hua IOT Agreement constitute continuing connected transactions of the Company that will be exempt from independent Shareholders' approval requirement but will be subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

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As the transactions contemplated under the Yan Hua IOT Agreement described above are and will continue to be entered into in the ordinary and usual course of business of our Group on a continuing basis, the Directors are of the view that compliance with the announcement requirements would impose unnecessary administrative costs and burden to the Group and would at times be impracticable. The Joint Sponsors have applied on behalf of the Company a waiver application under Rule 14A.42(3) of the Listing Rules, and the Stock Exchange has granted a waiver from strict compliance with the announcement requirements as may otherwise be required of the Company under Chapter 14A of the Listing Rules in connection with the Yan Hua IOT Agreement and all transactions contemplated under it. The waiver will be valid for three financial years until the end of 2015. After the expiration of the waiver, the Company will seek approval from its independent Shareholders every three years to approve the renewal of the Yan Hua IOT Agreement. In addition, the Company will set annual caps of the Management Fees and Investment Repayment every three years and seek approval from its independent Shareholders taking into account the Listing Rules from time to time.

According to Rule 14A.42(3) of the Listing Rules, the Company will comply with the applicable requirements set out in Rules 14A.35(1), 14A.35(2) and 14A.36 to 14A.40 of the Listing Rules from time to time in relation to the Yan Hua IOT Agreement.

(B) Pharmaceutical, Medical Device and Medical Consumables Sales Framework Agreement

Sales Arrangements with Beijing Wanrong and Beijing Jiayi

Beijing Wanrong and Beijing Jiayi, our wholly-owned indirect subsidiaries on the one hand, and Yan Hua Hospital Group on the other hand have a sales arrangement whereby Beijing Wanrong and Beijing Jiayi supply pharmaceuticals, medical device and medical consumables to Yan Hua Hospital Group on a recurring basis. Under such arrangement, Yan Hua Hospital Group places purchase orders for pharmaceuticals, medical device and medical consumables to Beijing Wanrong and Beijing Jiayi from time to time and Beijing Wanrong and Beijing Jiayi fulfill the orders by selling the products to Yan Hua Hospital Group at a price equal to the "bidding price" of the products fixed by PRC regulators or the prevailing market price. This sales arrangement commenced in 2008. The parties have entered into a legally binding pharmaceutical, medical device and consumables sales framework agreement for a term of three years commencing on the Listing Date.

Historical Transaction Amounts

In 2010, 2011, 2012 and the six months ended June 30, 2013, sales by Beijing Wanrong and Beijing Jiayi to Yan Hua Hospital Group were approximately RMB88.9 million, RMB158.2 million, RMB170.6 million and RMB81.6 million, respectively.

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Annual Caps on Future Transaction Amounts

In accordance with Rule 14A.35(2) of the Listing Rules, the Company has set annual caps on the maximum sales revenue generated under the pharmaceutical, medical device and medical consumables sales framework agreement. The annual caps for the pharmaceutical, medical device and medical consumables sales framework agreement for each of 2013, 2014 and 2015 are RMB200 million, RMB260 million and RMB330 million, respectively. The annual caps are estimated with reference to (i) the expected increase in the total purchases by Yan Hua Hospital Group, taking into account the historical increase in the purchases by Yan Hua Hospital Group of at least 10% per annum between 2010 and 2012, (ii) taking a percentage of between 55% to 75% of products to be procured for Yan Hua Hospital Group which are expected to be sourced from Beijing Wanrong and Beijing Jiayi, taking into account the historical percentage of purchases sourced from Beijing Wanrong and Beijing Jiayi of 38% to 58% between 2010 to 2012. The estimated increase in supply to Yan Hua Hospital Group from Beijing Wanrong and Beijing Jiayi is primarily based on our plan to further consolidate the procurement needs of Yan Hua Hospital Group through our supply chain business.

Listing Rule Implications

Based on the annual caps that have been proposed, we expect that the highest relevant percentage ratios under the pharmaceutical, medical device and medical consumables sales framework agreement will, on an annual basis, exceed 5%. Accordingly, the transactions under the pharmaceutical, medical device and medical consumables sales framework agreement constitute continuing connected transactions of the Company subject to reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the transactions contemplated under the pharmaceutical, medical device and medical consumables sales framework agreement described above are and will continue to be entered into in the ordinary and usual course of business of our Group on a continuing basis, the Directors are of the view that compliance with the announcement and independent Shareholders' approval requirements would impose unnecessary administrative costs and burden to the Group and would at times be impracticable. The Joint Sponsors have applied on behalf of the Company a waiver application under Rule 14A.42(3) of the Listing Rules, and the Stock Exchange has granted a waiver from strict compliance with the announcement and independent Shareholders' approval requirements as may otherwise be required of the Company under Chapter 14A of the Listing Rules in connection with the pharmaceutical, medical device and medical consumables sales framework agreement and all transactions contemplated therein. The waiver is valid provided that the revenue from the pharmaceutical, medical device and medical consumables sales framework agreement do not exceed the respective proposed annual caps for the relevant periods aforementioned.

According to Rule 14A.42(3) of the Listing Rules, the Company will comply with the applicable requirements set out in Rules 14A.35(1), 14A.35(2) and 14A.36 to 14A.40 of the Listing Rules from time to time in relation to the pharmaceutical, medical device and medical consumables sales framework agreement.

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CONFIRMATION FROM OUR DIRECTORS

Our Directors (including the independent non-executive Directors) confirm that the continuing connected transactions under the Yan Hua IOT Agreements and the pharmaceutical, medical device and medical consumables sales framework agreement have been and will be (i) entered into the ordinary and usual course of business of our Group; (ii) are based on normal or better commercial terms; (iii) and the terms and the proposed annual cap amounts for such transactions are fair and reasonable as far as our Company is concerned; and (iv) are in the interests of our Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors have reviewed the relevant information and historical figures prepared and provided by us relating to the non-exempt continuing connected transactions described above, have conducted due diligence by discussing these transactions with us and our advisers, and have obtained various representations and confirmations from us and the Controlling Shareholders. Based on the Joint Sponsors' due diligence, the Joint Sponsors are of the view that the non-exempt continuing connected transactions described above have been and will be entered into in the ordinary and usual course of business of the Group, are on normal or better commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the proposed annual caps for the non-exempt continuing connected transactions described above are fair and reasonable and in the interests of the Company and the Shareholders as a whole.