THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hospital Corporation of China Limited, you should at once hand this circular to the purchaser or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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弘和仁愛
HOSPITAL CORPORATION

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)

MAJOR TRANSACTION

ACQUISITION OF THE ENTIRE EQUITY INTEREST IN JIANDE HEXU ENTERPRISE MANAGEMENT CO., LTD.*

All capitalised terms used in this circular have the meaning set out in the section "Definitions" of this circular. A letter from the Board containing details of the Transactions is set out on pages 5 to 25 of the circular.

The Company has obtained a written approval for the Transactions pursuant to Rule 14.44 of the Listing Rules from Vanguard Glory who hold more than 50% of the issued Shares giving the right to attend and vote at a general meeting. Accordingly, no Shareholders' meeting will be held to approve the Transactions pursuant to Rule 14.44 of the Listing Rules. This circular is being despatched to the Shareholders for information only.

December 15, 2017

CONTENTS

In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

"Acquisition"	the acquisition of the entire equity interest in the Target Company and the transactions contemplated under the Sale Purchase Agreement;
"Appraised Value"	the appraised value of 70% equity interest in the Hospital, DJ Medicines and DJ Pharmaceutical Technology on a combined basis which ranges from RMB402 million to RMB530 million pursuant to the Valuation Report;
"Board"	the board of Directors;
"Business Day"	a day other than a Saturday, Sunday or public holiday in Hong Kong and the PRC when commercial banks in Hong Kong and the PRC are open for business;
"Call Option"	as such term is defined in the paragraph "Call Option" under section "B. The Sale Purchase Agreement" in the letter from the Board in this circular;
"close associate(s)", "connected person(s)", "percentage ratio(s)", "subsidiary(ies)"	each has the meaning ascribed to it under the Listing Rules;
"Company"	Hospital Corporation of China Limited (弘和仁愛醫療集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 3869);
"Completion"	completion of the Acquisition as more particularly described in the paragraph "Completion" under section "B. The Sale Purchase Agreement" in the Letter from the Board in this circular;
"Conditions"	the conditions to Completion, as more particularly described under the paragraph "Conditions" under section "B. The Sale Purchase Agreement" in the Letter from the Board in this circular;
"Consideration"	the consideration payable by the Purchaser to the Vendors pursuant to the Sale Purchase Agreement, as more particularly described in the paragraph "Consideration" under section "B. The Sale Purchase Agreement" in the Letter from the Board in this circular;
"Director(s) "	the director(s) of the Company;

"DJ Medicines"	Zhejiang Dajia Medicines Co., Ltd.* (浙江大佳醫藥有限公司), a company that is principally engaged in the wholesale of pharmaceutical products, and owned as to 70% by the Holdco and 30% by Xinxiangli Investment;
"DJ Pharmaceutical Technology"	Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd.* (建德大家中醫藥科技有限公司), owned as to 70% by the Holdco and 30% by Xinxiangli Investment;
"Duff & Phelps China"	D&P China (HK) Limited, an independent valuation specialist;
"Enlarged Group"	the Group as enlarged by the Acquisition;
"Group"	the Company and its subsidiaries;
"Holdco"	Jiande Heyue Enterprise Management Co., Ltd.* (建德和悦企業管理有限公司), a company incorporated in the PRC with limited liability and is wholly-owned by the Target Company;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Hospital"	Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* (建德中醫院有限公司), a for-profit TCM general hospital in Zhejiang and owned as to 70% by the Holdco and 30% by Xinxiangli Investment;
"Latest Practicable Date"	December 5, 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
"Letter of Intent"	a letter of intent dated August 10, 2017 entered into by, amongst others, the Company, details of which were set out in the announcement of the Company dated August 10, 2017;
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange;
"Long Stop Date"	being December 31, 2017 or such later date as mutually agreed by the Purchaser and the Vendors;
"PRC" or "China"	The People's Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan);
"Purchaser"	New Pride Holdings Limited (捷穎控股有限公司), a company incorporated in Hong Kong as a limited liability company and an indirect wholly-owned subsidiary of the Company;

"Remaining Interest"	the 30% equity interest in each of the Hospital, DJ Medicines and DJ Pharmaceutical Technology owned by Xinxiangli Investment upon Completion;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale Purchase Agreement"	the sale purchase agreement entered into between, amongst others, the Purchaser and the Vendors on October 27, 2017 in relation to the sale and purchase of the entire equity interest in the Target Company, as more particularly described in the section "B. The Sale Purchase Agreement" in the Letter from the Board in this circular;
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
"Shareholder(s)"	the shareholder(s) of the Company;
"Share(s)"	the share(s) of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Target Company"	Jiande Hexu Enterprise Management Co., Ltd.* (建德和煦企業管理有限公司), a company incorporated in the PRC with limited liability and is owned as to 99% by Mr. Hong Jiangxin and 1% by Mr. Hong Yang as at the Latest Practicable Date;
"Target Group"	the Target Company and its subsidiaries;
"Target Group Companies"	members of the Target Group, and "Target Group Company" shall mean any of them;
"TCM"	traditional Chinese medicine;
"Transactions"	the Acquisition, the Call Option and other transactions contemplated under the Sale Purchase Agreement;
"Valuation Report"	the valuation report prepared by Duff & Phelps China dated October 27, 2017 in respect of the market value of 70% equity interest in the Hospital, DJ Medicines and DJ Pharmaceutical Technology on a combined basis, using guideline company method of market approach;
"Vanguard Glory"	Vanguard Glory Limited, a company incorporated in the British Virgin Islands as a limited liability company and the immediate holding company that holds 70.19% issued share capital of the Company as at the Latest Practicable Date;
"Vendors"	Mr. Hong Jiangxin and Mr. Hong Yang;

"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 and held as to 83% by Mr. Hong Jiangxin; and
"%"	per cent.

* *for identification purpose only*

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures. Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

The English names of the PRC nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese names prevail.

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)

Executive Directors:
Mr. Zhang Xiaopeng *(Chief executive officer)*
Mr. Lu Wenzuo

Non-executive Directors:
Mr. Zhao John Huan *(Chairman)*
Mr. Lin Sheng
Ms. Liu Lu
Ms. Wang Nan

Independent Non-executive Directors:
Ms. Chen Xiaohong
Mr. Shi Luwen
Mr. Zhou Xiangliang

Registered office:
Maples Corporate Services Limited
PO Box 309, Ugland House
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Head office in the PRC:
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1602, Tower B, Jin Qiu International Building
No. 6, Zhichun Road, Haidian District, Beijing
The People's Republic of China

Principal place of business in Hong Kong:
Suite 2701, One Exchange Square
Central
Hong Kong

December 15, 2017

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

ACQUISITION OF THE ENTIRE EQUITY INTEREST IN JIANDE HEXU ENTERPRISE MANAGEMENT CO., LTD.

A. INTRODUCTION

Reference is made to the announcements of the Company dated July 4, 2017, August 10, 2017 and October 27, 2017 in relation to, among other things, the framework agreement dated July 4, 2017, the Letter of Intent and the Sale Purchase Agreement in respect of the Acquisition.

Pursuant to the Sale Purchase Agreement, the Purchaser (an indirect wholly-owned subsidiary of the Company) conditionally agreed to purchase and the Vendors conditionally agreed to sell the entire equity interest in the Target Company for a total Consideration of RMB483,000,000. Upon Completion, the Target Company shall become an indirect wholly-owned subsidiary of the Company.

The purpose of this circular is to provide you with, among others, (i) further details of the Sale Purchase Agreement and the transactions contemplated thereunder; (ii) financial information of the Group; (iii) the unaudited pro forma financial information of the Enlarged Group; (iv) management discussion and analysis of the Target Group; (v) the Valuation Report regarding the Hospital, DJ Medicines and DJ Pharmaceutical Technology, on a combined basis; (vi) letter from PricewaterhouseCoopers in relation to the forecast of the combined net profit of the Hospital, DJ Medicines and DJ Pharmaceutical Technology for the year ending December 31, 2017 set forth in the Valuation Report; and (vii) letter from the Board in relation to the Valuation Report.

B. THE SALE PURCHASE AGREEMENT

The principal terms of the Sale Purchase Agreement are summarized below:

Date : October 27, 2017 (after trading hours)

Parties :

a) the Purchaser;

b) Mr. Hong Jiangxin as one of the Vendors;

c) Mr. Hong Yang as one of the Vendors;

d) each of the Target Group Companies; and

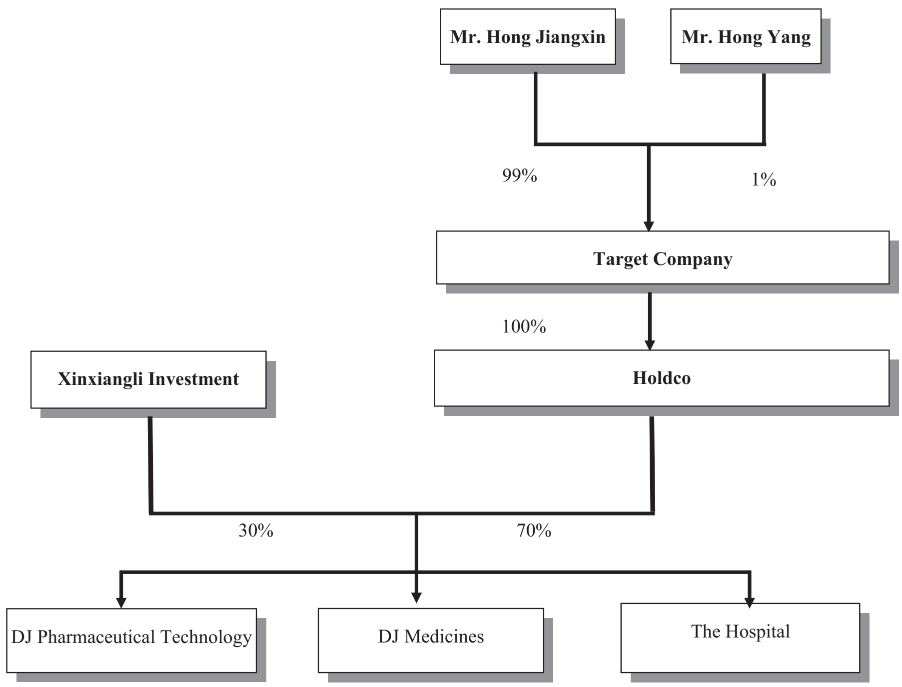
e) Xinxiangli Investment.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors, each of the Target Group Companies and Xinxiangli Investment and their respective ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.

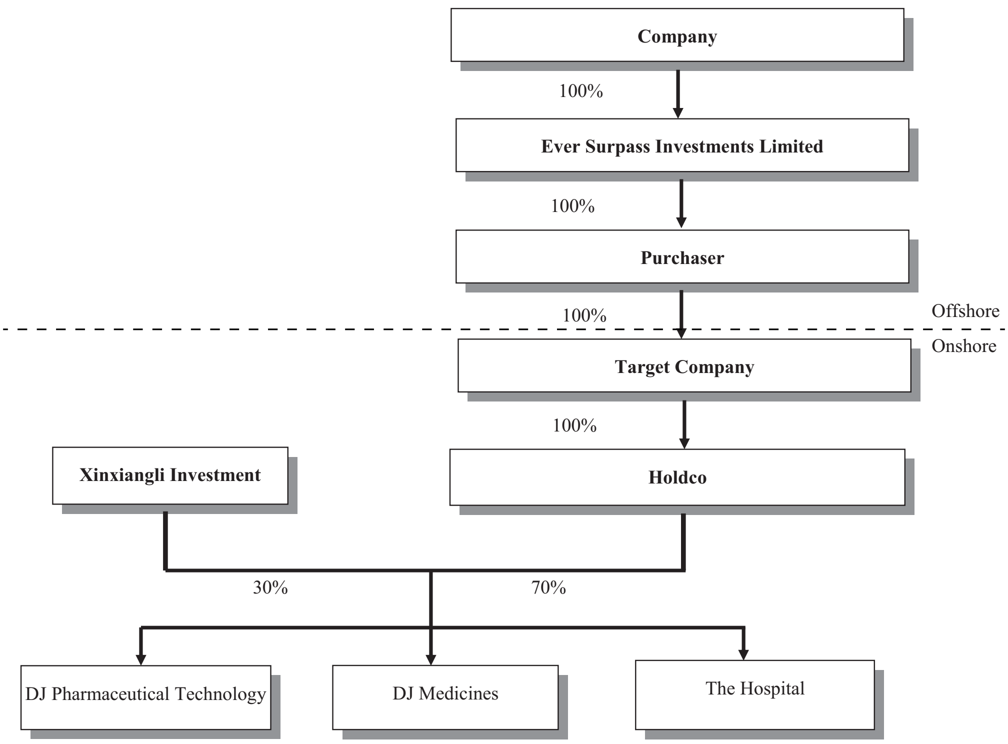
Subject Matter : The Purchaser has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the entire equity interest in the Target Company. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

As at the Latest Practicable Date, Mr. Hong Jiangxin and Mr. Hong Yang directly owns 99% and 1% equity interest in the Target Company, respectively, and the Target Company owns the entire equity interest of the Holdco, which in turn owns 70% equity interest in each of the Hospital, DJ Medicines and DJ Pharmaceutical Technology. As at the Latest Practicable Date, Xinxiangli Investment owns 30% equity interest in each of the Hospital, DJ Medicines and DJ Pharmaceutical Technology.

Shareholding structure of the Target Group before the Acquisition



Shareholding structure of the Target Group after Completion



Refundable Deposit : The Company, through one of its subsidiaries, has deposited RMB120 million, being a refundable deposit (the "**Deposit**"), into an escrow account on August 30, 2017, pursuant to the Letter of Intent. Any of the Deposit shall not be transferred or appropriated from the escrow account without the consent of the Purchaser and Mr. Hong Jiangxin.

The Vendors shall refund RMB40 million to the Company within 10 Business Days from the signing of the Sale Purchase Agreement. The Vendors shall refund RMB80 million (the "**Remaining Deposit**") to the Company within 20 Business Days from the date of payment of the first installment of the Consideration.

If all Conditions are not satisfied or waived on or before the Long Stop Date, the Remaining Deposit and any Consideration paid shall be refunded to the Company within 20 Business Days from the Long Stop Date.

Consideration : The Consideration under the Sale Purchase Agreement is RMB483,000,000 and shall be settled by the Purchaser to the Vendors in cash in the following manner:

a) RMB241,500,000, being the first installment of the Consideration, shall be paid within 10 Business Days after the Purchaser has received the Vendors' bank account details and subject to the satisfaction (or waiver, as applicable) of all the Conditions, except for Conditions (f) to (i) listed below in the paragraph "Conditions"; and

b) RMB241,500,000, being the balance of the Consideration, shall be paid within 10 Business Days after issuance of a written acknowledgement from the Purchaser of the satisfaction (or waiver, as applicable) of Conditions (f) to (i) listed below.

The Company intends to satisfy the first installment of the Consideration by internal resources. As at the Latest Practicable Date, the Company has entered into a facility agreement with China Merchants Bank Shanghai Zhangyang Branch for a term loan (the "**Facility Agreement**"), the proceed of which will be used for settlement of RMB241,500,000, being the remaining balance of the Consideration. The key terms of the Facility Agreement are set out below in the paragraph headed "Facility Agreement".

Basis of consideration : The Consideration was arrived at after arm's length negotiations between the Vendors and the Purchaser after taking into account, among other things, (i) the profit guarantee provided by the Vendors under the Sale Purchase Agreement as set out in the paragraph "Profit Guarantee" below; (ii) the price-to-earnings multiple ("**P/E Multiple(s)**") of the companies whose principal business are similar to that of the Target Company; (iii) the Appraised Value pursuant to the Valuation Report as set out in the paragraph "Valuation" below; and (iv) the historical performance of the business and future prospects of the Target Group.

In order to assess the fairness of the Consideration, the Company has carried out an analysis based on comparable companies. In particular, the Company has identified and reviewed, to the best of its knowledge and ability, the P/E Multiples represented by the comparable companies that primarily provide medical services and/or operate hospitals in China (the "**Comparable Companies**"). Details of the Comparable Companies are set out as below:

Name	Stock Code	Exchange where the stock is listed	Principal business activities	P/E Multiples[(1)]
New Century Healthcare Holding Co. Limited	1518	Hong Kong	New Century Healthcare Holding Co. Limited is principally engaged in provision of medical services in pediatrics and obstetrics and gynecology for children and women in Beijing.	22.76x
Guangdong Kanghua Healthcare Co., Ltd.	3689	Hong Kong	Guangdong Kanghua Healthcare Co., Ltd. is a China-based company principally engaged in the operation of hospital in the PRC.	17.04x
Rici Healthcare Holdings Limited	1526	Hong Kong	Rici Healthcare Holdings Limited is principally engaged in the general hospital business, medical examination business and clinic business.	49.41x
Wenzhou Kangning Hospital Co., Ltd.	2120	Hong Kong	Wenzhou Kangning Hospital Co., Ltd. is the largest private psychiatric healthcare group in the PRC and operates and manages a network of healthcare facilities across various regions in China that primarily focus on providing psychiatric specialty care.	31.70x
Harmonicare Medical Holdings Limited	1509	Hong Kong	Harmonicare Medical Holdings Limited is principally engaged in the provision of specialised hospital services, especially in obstetrics and gynaecology and supply chain business in the PRC.	29.12x
China Resources Phoenix Healthcare Holdings Company Limited	1515	Hong Kong	China Resources Phoenix Healthcare Holdings Company Limited, formerly Phoenix Healthcare Group Co. Ltd., is an investment holding company principally engaged in the provision of general hospital services, hospital management services and supply chain businesses in Beijing, China.	N/A [(2)]

Notes:

(1) The P/E Multiples of the Comparable Companies are calculated by dividing the price of the shares as of October 27, 2017 by the basic earnings per share of the latest financial year.

(2) The entity recorded loss after taxation for the latest financial year.

The P/E Multiples of the Comparable Companies were derived from the information published on Bloomberg as of October 27, 2017.

The Board believes that the Comparable Companies share similar business model with the Target Group, and correctly reflect the current market consideration of companies operating in the same domain. The Board considers the above analysis is sufficient and meaningful for the Board to form an observation and meaningful comparison with the Acquisition. The Board is aware that the Comparable Companies are all listed companies whose shares are traded on the Stock Exchange. The Target Company is not a public company, and thus its shares would not enjoy the benefit of marketability similar to the above Comparable Companies, yet there is no public and direct assessment of the fair market value of the Target Company itself. The Board understands that it is a market practice to derive a fair market value of a private company based on the P/E Multiples of a comparable group of listed companies. To the best knowledge and information of the Directors, the P/E Multiples of the Comparable Companies, based on the above criteria, are exhaustive and serve as fair and representative samples for the purpose of the Acquisition.

The Consideration reflects a P/E Multiple of 24.6 times, which is lower than the average P/E Multiple of the Comparable Companies of 30.01 times, as well as falls within the range of the P/E Multiples of the Comparable Companies.

Having considered the above factors, the Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole. In order to gain further evidence for our analysis, we have engaged Duff & Phelps China to prepare the Valuation Report, a full text of which is set out in Appendix V to this circular.

Conditions : Completion shall be conditional upon satisfaction or waiver (as applicable) of each of the Conditions, including but not limited to:

a) the Purchaser having duly executed the Sale Purchase Agreement and having obtained all necessary internal consents and approvals, shareholders' approval and government bodies' approval in relation to the Acquisition;

b) the Company and the Purchaser having fulfilled the requirements under the Listing Rules in relation to disclosure and Shareholders' approval which are applicable to the Acquisition;

c) the Vendors and each Target Group Company having duly executed the Sale Purchase Agreement and having obtained, if applicable, all necessary internal consents and approvals and government bodies' approval in relation to the Acquisition;

d) each of the Vendors has agreed to waive their pre-emptive rights in respect of the equity interest in the Target Company;

e) on or before Completion,

   i. there being no material adverse change in the operations and financial prospect of the Target Group, and no events that may result or reasonably be expected to cause material adverse change;

   ii. the representations and warranties given by each of the Vendors and the Target Group Companies were true, accurate and not misleading;

   iii. the Vendors and the Target Group Companies having complied with and abided by the terms, obligations and conditions under the Sale Purchase Agreement in all material respects;

f) the Hospital having completed the real property registration for certain properties regarding their conversion from allocated land use rights to granted land use rights;

g) the Hospital having disposed of three service center and clinics as set out in the Sale Purchase Agreement, which do not form a part of the principal business of, and are immaterial to, the Target Group;

h) the Hospital having obtained the confirmation from the relevant government authorities as to compliance with the relevant advertising regulations;

i) the Hospital having renewed all relevant licenses to effect its change of name after the conversion from a not-for-profit hospital to a for-profit hospital;

j) the Vendors having granted an interest-free loan of RMB25 million to the Target Group Companies to repay all the outstanding interest-bearing loans granted by commercial banks to the Target Group Companies in full, and the Target Group Companies having fully settled the outstanding debt, payables and receivables save as agreed otherwise pursuant to mutual agreement between the Vendors and the Purchaser to be reached upon Completion;

k) the Hospital having entered into employment and non-competition agreements with certain key employees of the Hospital. As of the Latest Practicable Date, such key employees have agreed to enter into the employment and non-competition agreements with the Hospital; and

l) save as set out in the Sale Purchase Agreement or agreed otherwise by the Purchaser, there shall not be any distribution of profits or adjustment of remuneration during the period from June 30, 2017 until the Completion, and the Target Company shall maintain a net asset value not less than the net asset value as at June 30, 2017.

Except for the above Condition (a) and (b), the Purchaser shall have the discretion to waive the Conditions and any waiver so granted may be subject to such Conditions as the Company may deem fit. The reason for empowering the Company to waive the above Conditions is to allow more flexibility to the Company to manage the Acquisition if circumstances required. As of the Latest Practicable Date, the Conditions (a), (d), (f), (h), (j) and (k) have been fulfilled and the Company has no intention to waive any of the Conditions. The Company will not waive any of the Conditions if the waiver of such Condition is not fair and reasonable and not in the interest of the Company and its Shareholders as a whole. As a result, the Board do not consider the waiver of such, if any, will affect the substance of the Acquisition.

Profit Guarantee : The Vendors have guaranteed to the Purchaser that the adjusted net profit (being the audited net profit after deduction of tax and non-recurring profit or loss and excluding all income or loss generated from activities outside the ordinary and usual course of business) of the Hospital and DJ Medicines, on a combined basis, for the year ending December 31, 2017 (the "**2017 Net Profit**") will be no less than RMB28 million (the "**Guaranteed Profit**").

The amount of the Guaranteed Profit was determined based on (i) the audited net profit of the Target Group for the six months ended June 30, 2017, (ii) the unaudited net profit of the Hospital and DJ Medicines, on a combined basis, for the nine months ended September 30, 2017, and (iii) the trend of financial performance of the Hospital and DJ Medicines in the fourth quarter of 2017. The Board considers that the Guaranteed Profit is reasonable and achievable on the following grounds: (i) in accordance with the management accounts of the Hospital and DJ Medicines, for the nine months ended September 30, 2017, the Hospital and DJ Medicines recorded net profit of approximately RMB18,190,000 and RMB2,200,000 respectively, (ii) the new hospital building, which has a capacity of 200 beds and is equipped with 30 new haemodialysis machines, was put into use in the second half of 2017 and is expected to boost the Hospital's revenue from treatment and general hospital services in the second half of 2017, and (iii) DJ Medicines is expected to achieve an increase in its revenue from the wholesale of pharmaceutical products to third-party customers in the second half of 2017.

The profit guarantee shall be deemed having been fulfilled if the 2017 Net Profit is not less than RMB26 million. In the event that the 2017 Net Profit is less than RMB26 million, the Vendors shall compensate the Company a sum (the "**Compensation Amount**") in accordance with the formula below:

Compensation Amount = (Guaranteed Profit-2017 Net Profit) x 24.6 x 70%

The mechanism of the Compensation Amount is a commercial decision with reference to (i) the amount of the estimated net profit of the Hospital and DJ Medicines for the year ending December 31, 2017, on a combined basis; and (ii) the P/E Multiple of 24.6 times. When determining the mechanism of the compensation, the Board has considered the following factors: (i) DJ Pharmaceutical Technology owns certain properties that house the Hospital; (ii) DJ Pharmaceutical Technology has not been carrying out any operating activities since its incorporation and will not generate any revenue for the year ending December 31, 2017; and (iii) the expenses to be incurred by DJ Pharmaceutical Technology for the year ending December 31, 2017 is expected not to be material and is non-cash expenses which such non-cash expenses is immaterial to the valuation for the purpose of the Acquisition, and therefore, the Board considers the profit guarantee with DJ Pharmaceutical Technology excluded is fair and reasonable. Further, the P/E Multiple of 24.6 times was calculated based on the Guaranteed Profit and the Consideration, which was arrived at after arm's length negotiations between the Vendors and the Purchaser. The P/E Multiple of 24.6 times represents a reasonable and moderate control premium and lack of marketability discount, and falls within the range of P/E Multiples of the Comparable Companies in the PRC that have business natures similar to the Target Company. Based on the aforementioned factors and reasons, the Board considers the Compensation Amount determined based on the P/E Multiple of 24.6 times is fair and reasonable.

The Purchaser shall serve a notice to the Vendors regarding the Compensation Amount after it has been determined with reference to the audited financial information for the year ending December 31, 2017, the Vendors shall pay the Compensation Amount in cash to the Purchaser within 10 days after receiving such notice.

Long Stop Date : In the event that any of the Conditions is not fulfilled (or waived) on or before the Long Stop Date, being December 31, 2017, or such later date as mutually agreed by the Purchaser and the Vendors, the parties to the Sale Purchase Agreement shall not be bound to proceed with the Acquisition and the Sale Purchase Agreement shall cease to be of any effect save in respect of claims arising out of any antecedent breach of the Sale Purchase Agreement.

Completion : Subsequent to the fulfillment or waiver (as applicable) of all Conditions, the Completion shall take place upon the day that the business license in respect of the Acquisition is issued by the relevant local branch of the State Administration of Industry & Commerce of the PRC.

Call Option : Pursuant to the Sale Purchase Agreement, Xinxiangli Investment granted to the Purchaser an option to acquire the Remaining Interest (the "**Call Option**") at a consideration calculated in accordance with the formula below:

(RMB483,000,000 ÷ 70% x 30%) + 10% simple interest per annum from date of Completion

The value of the Remaining Interest is calculated with reference to the value of the 70% equity interest in the Hospital, DJ Medicines and DJ Pharmaceutical Technology, being RMB483 million, which falls within the range of the Appraised Value as set out in the Valuation Report. Subsequent to the Acquisition, the Target Group is expected to maintain a rapid growth rate in terms of generation of profits, mainly due to the expansion of capacity, the improvement in operational efficiency contributed by the centralized platform for pharmaceutical product procurement and the synergy effect within the Enlarged Group. The Board considers the 10% simple interest per annum is a prudent and reasonable estimation of the future growth of the Target Group. The Directors are of the view that the consideration of the Call Option is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Purchaser may exercise the Call Option at any time during the period commencing from the date of the Completion and ending on December 31, 2020, to the extent that the Call Option and the acquisition of the Remaining Interest are permissible under the then applicable policies, laws and regulations in the PRC and the Listing Rules, and subject to the availability of finance to fund the exercise of Call Option.

Under the policies and regulations in the PRC, foreign investment in medical institutions is restricted to the form of sino-foreign equity joint venture or cooperative joint venture. Under the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法), the equity percentage directly held by the foreign partner in a sino-foreign joint venture may not exceed 70%. Although there is no explicit PRC laws and regulation in relation to the shareholding restriction as to the indirect shareholding ratio held by a foreign investor in a PRC medical institution in Jiande City, Hangzhou, such 70% limitation is usually adopted in such cases. Considering the restraint under the current legal and policy requirements, the additional financing cost, and the need of operational support from the Vendors during the transition period after Completion, the Company does not intend to acquire the Remaining Interest alongside the Acquisition.

Facility Agreement : The Company has entered into the Facility Agreement on December 12, 2017, the key terms are summarized below:

a) Parties: the Company and China Merchants Bank Shanghai Zhangyang Branch (the "**Lender**").

b) Facilities: an aggregate principal amount of up to HK$285,280,000.

c) Term: up to five years, commencing from December 12, 2017.

d) Interest rate: Hong Kong Interbank Offer Rate plus 360 basis points per annum.

e) Share Charge: the Company shall pledge the 100% equity interest of each of the Target Company and Holdco, and 70% equity interest of each of the Hospital, DJ Medicines and DJ Pharmaceutical Technology in favour of the Lender as a security for all the obligations of the Company under the Facility Agreement.

C. VALUATION

Pursuant to the Valuation Report, the Appraised Value of 70% equity interest in the Hospital, DJ Medicines and DJ Pharmaceutical Technology ranges from RMB402 million to RMB530 million. The Valuation Report was prepared using the market approach with guideline company method based on the forecast of the combined net profit of the Hospital, DJ Medicines and DJ Pharmaceutical Technology for the year ending December 31, 2017, which constitutes a profit forecast under Rule 14.61 of the Listing Rules. For the purpose of complying with Rule 14.62 of the Listing Rules, the major assumptions on which the Valuation Report was based are set out below:

a) no major changes are expected in political, legal and economic conditions in China;

b) regulatory environment and market conditions for healthcare industry will be developing according to prevailing market expectations;

c) there will be no major changes in the current taxation law applicable to the Hospital, DJ Medicines and DJ Pharmaceutical Technology;

d) the Hospital, DJ Medicines and DJ Pharmaceutical Technology will not be constrained by the availability of finance;

e) the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations; and

f) the Hospital, DJ Medicines and DJ Pharmaceutical Technology will retain competent management, key personnel and technical staff to support their ongoing operations.

The Valuation Report was prepared to ascertain the market value, of which the market value is a market based measurement instead of an owner or investor-specific measurement. As such, market value should be determined based on assumptions to simulate an environment to allow the valuation to reflect the market value that a willing buyer and a willing seller would agree in pricing a business. From a willing buyer and a willing seller perspective, value of a business should be driven by its fundamental performance and prospect. If the performance and prospect of a business are solid, the business should be able to obtain internal or external finances, at a market rate that can compensate for its underlying risks. By the same reason, additional finances provided by the owners or investors should not positively change the market value of a business which has poor performance and business prospect. In view of which, assumption (d) set out above has assumed that the Hospital, DJ Medicines and DJ Pharmaceutical Technology are not under special circumstances that render it difficult for their businesses to obtain external finances, and this assumption is commonly adopted in the determination of market value of a business. Based on the foregoing reasons, Duff & Phelps China has confirmed, and whose views are concurred by the Directors, that the assumption (d) is fair and reasonable.

The Board has reviewed and discussed with Duff & Phelps China the key bases and assumptions adopted for the valuation. A list of key information examined and major assumptions and considerations adopted by Duff & Phelps China are set out in the Valuation Report. The Board understands from Duff & Phelps China and notes from the Valuation Report that the guideline company method of market approach was applied when determining the market value of the equity interest of the Hospital, DJ Medicines and DJ Pharmaceutical Technology. When using the guideline company method, Duff & Phelps China determined a price multiple for valuing the equity interest by computing the multiple for the guideline companies. The price multiple was then applied to the Hospital, DJ Medicines and DJ Pharmaceutical Technology, on a combined basis, to arrive at an estimate of appraised value for the ownership interest adjusting for a control premium and lack of marketability discount.

The Board understands from Duff & Phelps that it considers the price multiple an appropriate valuation multiple, and as the Hospital underwent an expansion in 2017 to increase its capacity from 250 beds to 450 beds, the forward-looking multiples with reference to the estimated net profit of the Hospital, DJ Medicines and DJ Pharmaceutical Technology for the year ending December 31, 2017 would better reflect their earning capability, on a combined basis, after the expansion. Based on the above reasons, the Board believes the key assumptions and methodology adopted in the Valuation Report are fair and reasonable.

D. INFORMATION OF THE TARGET GROUP

Overview

The Target Company is a company established in the PRC with limited liability and is an investment holding company. As of the Latest Practicable Date, the Target Company directly owns 100% equity interest in the Holdco, which in turn directly owns 70% equity interest in each of the Hospital, DJ Medicines and DJ Pharmaceutical Technology. The Hospital is a for-profit TCM general hospital in Zhejiang that features the use of traditional Chinese medicines and provides comprehensive medical services. DJ Medicines is principally engaged in the wholesale of pharmaceutical products. DJ Pharmaceutical Technology owns certain land use rights.

As at the Latest Practicable Date, there is no profit sharing mechanism between the Purchaser and Xinxiangli Investment in respect of its remaining 30% interest in the Target Company. The Company currently does not expect to provide any capital commitments to the Target Group after Completion.

Financial information

Set out below is the combined financial information of the Target Group for the two financial years ended December 31, 2015 and 2016 and six months ended June 30, 2017.

	For the financial year ended December 31		For the six months ended June 30
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	149,782	154,210	73,241
Net profit before taxation	4,186	1,431	12,771
Net profit after taxation	4,186	919	9,529

The audited total asset and net asset value of the Target Group as at June 30, 2017 were approximately RMB260,396,000 and RMB84,833,000, respectively.

The Hospital

The Hospital was incorporated in the PRC on August 6, 1984 by the Health Bureau of Jiande City in Hangzhou, Zhejiang Province and provides comprehensive out-patient and in-patient medical services featuring the use of TCM to residents in Jiande city. An agreement of conversion from not-for-profit to for-profit hospital was signed by the Health and Family Planning Bureau of Jiande City and the Hospital in July 2016 and the Hospital was registered as a limited liability company and for-profit general hospital in September 2016. The Hospital is a Grade II general hospital with 250 registered beds as of June 30, 2017. The Hospital opened a new medical building in August 2017.

As of the Latest Practicable Date, the Hospital has obtained the relevant licenses for operation from competent local authorities, including but not limited to, the Medical Institution Practicing License issued by the Health and Family Planning Bureau of Jiande City.

DJ Medicines

DJ Medicines was established by three independent third-party individuals as a limited liability company on August 11, 2005 and in March 2016, DJ Medicines was acquired by a then wholly-owned subsidiary of the Hospital. DJ Medicines is principally engaged in the supply of pharmaceutical products to the Hospital and third-party customers.

As of the Latest Practicable Date, DJ Medicines has obtained the relevant licenses for its pharmaceutical operations from competent local authorities, including but not limited to, (i) pharmaceuticals operation license, (ii) certificate of Good Supply Practice for Pharmaceutical Products issued by the Zhejiang Province Food and Drug Administration, and (iii) operation license for medical equipment from the Hangzhou Municipal Market Supervision and Administration Bureau.

DJ Pharmaceutical Technology

DJ Pharmaceutical Technology was established by Xinxiangli Investment and Mr. Hong Jiangxin on November 12, 2014.

a) *Land use right.* On July 29, 2015, DJ Pharmaceutical Technology and the Land and Resources Bureau of Jiande city entered into a state-owned land use right agreement for a property measuring approximately 3,656 square meters on Anjiang Street, Xin'an East Road ("**Land 01**"), for commercial use in relation to service facilities, such as private clinics. The total consideration for Land 01 was RMB19,150,000.

   On June 14, 2016, the Jiande Municipal People's Government issued the land use right certificate of state-owned land for Land 01 (State Construction (2016) No. 2873) to DJ Pharmaceutical Technology for a period of 40 years, terminating on July 28, 2055.

b) *Licenses.* DJ Pharmaceutical Technology's business license was duly issued by the competent local authority, Jiande City Market Supervision and Administration Bureau on December 12, 2016. DJ Pharmaceutical Technology owns certain properties and has not been carrying out any operating activities since its incorporation. As such, DJ Pharmaceutical Technology does not require any additional licenses for its operations.

Directors of the Target Company

Subsequent to Completion, the Target Company will have a board comprised of three directors, comprising of Mr. Hong Jiangxin and two directors appointed by the Company, namely Mr. Zhang Xiaopeng and Mr. Zou Ran. The profile of the directors of the Target Company upon Completion are set out below:

Mr. Zhang Xiaopeng, the Company's executive director and chief executive officer will also serve as a director and chairman of the Target Company, effective on Completion. Mr. Zhang has extensive knowledge on the operation and management of hospitals and supervises the resource development and investments of the Group. Mr. Zhang's broad capabilities and expertise arises from experience in a wide-ranging set of managerial roles, from chief physician and professor at a prestigious Class IIIA specialty hospital located in Beijing to vice hospital administrator at a Class IIIA general hospital providing comprehensive medical services in Shenyang, Liaoning Province.

Mr. Zou Ran, the current chief financial officer of the Company will be a director of the Target Company, effective on Completion. Mr. Zou will be primarily responsible for overseeing the financial aspects and operations of the Target Company. Mr. Zou previously worked for KPMG and Hony Capital and obtained his bachelor of management from the University of International Business and Economics.

Mr. Hong Jiangxin will be a director of the Target Company, effective on Completion. Mr. Hong will be primarily responsible for overseeing resource development of the Target Group Companies. Mr. Hong currently serves as chairman of Xinxiangli Investment, and is the chairman and founder of Dajia Group Co., Ltd. and its subsidiaries. Mr. Hong has over 30 years of experience in the healthcare industry and previously served as the general director of the Hospital. Mr. Hong obtained a master of business administration from Zhejiang University.

As such, the Company's management team has expertise in the Target Group's business, including the wholesale of pharmaceuticals by DJ Medicines, given that pharmaceutical sales are prominent in many hospitals in the PRC. The supply of pharmaceuticals is an upstream business associated with hospitals, and as with the Target Group, the Hospital is one of the major customers of DJ Medicines.

Senior management

The senior management of the Hospital listed below, in addition to the directors of the Target Company listed above, monitor the operations of the Target Group.

Mr. Wu Jianhong (吳建紅) is the hospital administrator of the Hospital and primarily responsible for overseeing general administrative affairs and overall operations of the Hospital. Mr. Wu has extensive medical experience in orthopedic trauma, joint replacement surgery, acupuncture and traditional Chinese medicines. Mr. Wu is also a committee member of the Zhejiang Province Association of Traditional Chinese Medicine* and the Hangzhou Institute of Integrated Traditional Chinese and Western Medicine*. Mr. Wu also received the Youth Science and Technology Awards of Jiande City in 2006 and 2012.

Mr. Lan Jianhua (藍建華) is a deputy hospital administrator of the Hospital and primarily responsible for overseeing the operations of various medical departments. Mr. Lan specializes in the diagnosis and treatment of cardiovascular and cerebrovascular diseases, and is also a committee member of the Hangzhou Institute of Integrated Traditional Chinese and Western Medicine*.

Mr. Leng Fenrong (冷芬榮) is an assistant to the hospital administrator of the Hospital and is primarily responsible for assisting the hospital administrator in the day-to-day operations and management of the Hospital. Mr. Leng also specializes in the practice of clinical anesthetics and emergency medical services.

Mr. Huang Jianzhong (黃建忠) is a deputy hospital administrator and secretary of the Hospital, with over 30 years of experience in financial management. Mr. Huang is primarily responsible for formulating and administering the remuneration scheme and performance compensation plan of the Hospital.

Business and operation model of the Target Group Companies

a) *Hospital*

The Hospital is a for-profit national Grade II TCM hospital integrating a comprehensive selection of (i) medical services (ii) emergency care services (iii) research and academic faculties; and (iv) general healthcare services. The Hospital has a prominent focus on the practice of traditional Chinese medicines and has specialized orthopedics and surgical departments, hemodialysis center and other medical facilities. The Hospital provides both Chinese and Western medical and diagnostic services, and derives revenue from the Hospital's comprehensive in-patient and out-patient services along with related downstream services such as the supply of medicines and health management services to patients.

b) *DJ Medicines*

DJ Medicines distributes wholesale medicines and pharmaceutical supplies to the Hospital and certain third-party customers.

c) *DJ Pharmaceutical Technology*

DJ Pharmaceutical Technology does not currently have any business activity and is principally engaged in owning and holding the property which houses the operations of the Hospital.

Business development plan of the Target Group

The primary business development plan for the Target Group includes the following:

1) to build a regional medical service center, which is primarily focused on common and chronic diseases. There is ample room for growth and business development which can be achieved through improvements in service quality, strengthening of discipline and focusing on constructive training of hospital personnel, together with consolidation and expansion of the hospital's academic capabilities which will enable the Hospital to position itself in the market and gradually become the regional medical service platform for the Jiande City region;

2) to promote and highlight the characteristics of traditional Chinese medicines and its benefits;

3) to promote the features of hemodialysis treatment; and

4) to expand the Hospital's VIP patient services and other premier medical services which can be differentiated and diversified from services provided by other public hospitals. Given the current lack of premium VIP medical services in the Jiande City region, the Hospital is strategically located in the Zhejiang Province, which is close in proximity to public transportation and also geographically close to Shanghai Yangsi Hospital (上海楊思醫院),

a non-public not-for-profit general hospital founded and managed by the Group. As such, the Hospital can offer synergistic effects and enhance the overall branding of the Group as a whole through active dialogue, support and communication between the Hospital and the Company's management team.

Factoring in the business development of DJ Medicines, the Group plans to enhance and transform DJ Medicines into distribution center and platform for the supply of medicines and pharmaceutical products to the Group. DJ Medicine's strategic location in the Zhejiang Province offers logistic capabilities for distribution channels across Shanghai and Zhejiang Province.

E. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Group is principally engaged in hospital management business and general hospital business in China. It focuses on expansions in regions with sizeable populations and attractive economic conditions, including the Zhejiang region in which the Hospital is located. The Hospital is in close proximity to the hospitals that the Group manages in the area, allowing the Group and Hospital to create a synergy effect and benefit from the resultant economies of scale, including shared medical resources and intra-group cooperation.

Given the Hospital features the use of TCM and provides comprehensive medical services, it can take advantage of government policies that promote traditional Chinese medicine to develop its unique offering and enhance its future prospects. The Hospital also has good staff support and operational records, laying strong foundations for growth. The opening of a new medical building in August 2017 also improves the growth potential of the Hospital. The Company believes the Hospital has a strong competitive advantage in the region, making it a useful addition to the Group. The Company also believes that the Hospital has enormous growth potential as it has a large patient base and a leading reputation in the area.

The Hospital is a for-profit hospital with stable patient base and profitability prospects, which is expected to enhance the core value of the Company. The Hospital has a sound financial track record and stable business operations. It has consistently maintained stable business operations and profitability prospects, which shows its market potential to become a profitable acquisition for the Group. Such a for-profit hospital that has completed its legal restructuring is relatively rare in the market, DJ Medicines is principally engaged in the wholesale of pharmaceutical products, which will give the Enlarged Group access to pharmaceutical products at a lower cost and supports the procurement channel of the Enlarged Group. By embedding the supply chain function of DJ Medicines into the network of the Enlarged Group, all hospitals in the network will benefit from having a streamlined procurement system which addressed the redundancies of the intermediates, lack of transparency and ongoing issues regarding quality and delivery. DJ Pharmaceutical Technology owns the property that houses the operations of the Hospital.

The Group's planning, development and management efforts are consolidated and centralized at the Group level. The standardized management system implements by the Group would help establish a unified investment and financing platform, supply chain platform and personnel training platform for the Enlarged Group, which allow the Enlarged Group to benefit from the brand recognition and cost-effective advantages due to economies of scale. Subsequent to the Completion, the Enlarged

Group will implement the standardized and streamlined management system in the Hospital and DJ Medicines and utilize the platform and resources of the Enlarged Group to improve the management and services quality of the Hospital. The economies of scale can be reflected in more streamlined work-flow, more efficient processes and a wider reach to serve more patients, which would serve to decrease the cost of individual workstream. For instance, the Enlarged Group can share their resources invested in customer services and the centralized system would place the Enlarged Group in a better position to attain better deals in purchasing goods and services. The Hospital is also expected to benefit from the experience of the Group in hospital management and operation and the exchange of academic, research and clinical expertise among the medical professionals of the Enlarged Group. The Board considers that the terms of the Sale Purchase Agreement are fair and reasonable and on normal commercial terms. Considering the advantages and synergistic effect arising from the integration of operations and the sharing of medical resources among the Target Group Companies and the Group, the Board further considers that the Transactions are in the interests of the Company and the Shareholders as a whole.

The Directors consider that the Transactions can serve as a model for the Group's future acquisitions. The Company has identified specific potential acquisition targets as at the Latest Practicable Date, please refer to the section headed "F. Acquisitions after the date of the Latest Published Audited Accounts" in Appendix I for details. As of the Latest Practicable Date, the Company had not entered, or proposed to enter, into any agreement, arrangement, understanding, undertaking or negotiation, or had any intention or plan, in respect of any potential transaction which would involve disposal or downsize of the existing business of the Group.

F. INFORMATION ON THE GROUP AND THE VENDORS

Information on the Group

The Company was incorporated in the Cayman Islands as an exempted company with limited liability, shares of which have been listed on the Stock Exchange since March 16, 2017. The Group is principally engaged in hospital management business and general hospital business in China.

Information on the Vendors

Mr. Hong Jiangxin owns 99% equity interest in the Target Company and Mr. Hong Yang owns 1% equity interest in the Target Company as at the Latest Practicable Date.

G. FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

The Directors have considered the pro forma financial information of the Enlarged Group as set out in Appendix III and noted the following significant financial effects of the Acquisition (assuming completion of the Acquisition on June 30, 2017 ("**Pro Forma Completion Date**")) to the Enlarged Group as compared to the financial position of the Group as of June 30, 2017.

Impacts on assets and liabilities

On the Pro Forma Completion Date, all the identifiable assets and liabilities of the Target Group Companies would be stated at fair value and consolidated into the consolidated financial statements of the Company. The financial effects of the Acquisition to the Enlarged Group as compared to the financial position of the Group as at June 30, 2017 are as follows:

	Prior to the Completion	Upon Completion (pro forma of the Enlarged Group)	Change	
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	%
Total assets	1,719,187	2,252,963	533,776	31.0%
Net assets	1,564,974	1,631,663	66,689	4.3%
Borrowings	—	291,100	291,100	—
Cash and cash equivalent	456,556	218,622	(237,934)	-52.1%

The Acquisition would have an impact on cash and cash equivalent in the Enlarged Group level due to the payment of the first installment of the Consideration of RMB241,500,000. On the assets side, the Acquisition would have impact on the total assets as the value of the land use rights, intangible assets, and property, plant and equipment of the Target Group would be consolidated into the accounts of the Enlarged Group. The Acquisition would increase the borrowing of the Enlarged Group by RMB291,100,000 due to the bank loan of HK$285,280,000 under the Facility Agreement to pay for the remaining balance of the Consideration.

Impacts on earnings

As set out in the 2016 annual report of the Company, the audited net income for the year ended December 31, 2016 was approximately RMB41,481,000. As set out in the Accountant's report of the Target Group in Appendix II to this circular, the audited net income of the Target Group for the year ended December 31, 2016 was approximately RMB919,000. As set out in Appendix II to this circular, the Target Group recorded a net loss of approximately RMB111,000 for the six months ended June 30, 2016 and a net income of approximately RMB9,529,000 for the same period in 2017.

Following the Completion, the Target Group Companies will become subsidiaries of the Company and the financial results, including but not limited to the revenue, costs and profit of the Target Group Companies will be consolidated into the consolidated financial statements of the Group after Completion.

With reference to the historical financial performance of the Target Group, the Directors are of the view that the Acquisition would have a positive impact on the future earnings of the Enlarged Group in a long run.

H. LISTING RULES IMPLICATION

As the highest applicable percentage ratio for the Company in respect of the Transactions is 25% or more but is less than 100%, the Transactions constitute a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors after all reasonable enquiries have been made, no Shareholders or any of their respective associates have any material interest in the Transactions. As such, no Shareholders would be required to abstain from voting in favour of the resolutions approving the Sale Purchase Agreement and the Transactions. Pursuant to Rule 14.44 of the Listing Rules, the Company may apply the written shareholders' approval in lieu of holding a general meeting of the Company to approve the terms of the Sale Purchase Agreement and the Transactions.

As at the Latest Practicable Date, the Company has obtained a written approval on the Sale Purchase Agreement and the Transactions from Vanguard Glory, which holds 97,000,000 Shares, representing approximately 70.19% of the total number of the issued Shares. As such, the Company is not required to convene a general meeting to consider and approve the Sale Purchase Agreement and the Transactions.

I. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Shareholders and potential investors of the Company should note that the Transactions are subject to a number of Conditions which may or may not be fulfilled. Shareholders and potential investors of the Company are reminded to exercise cautions when dealing in the securities of the Company.

By order of the Board
Hospital Corporation of China Limited
Zhang Xiaopeng
Executive Director and Chief Executive Officer

A. FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out or refer to in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest publish audited balance sheet together with the notes on the annual accounts for the last financial year for the Group. The financial information of the Group is disclosed in the following documents which have been published on the website of The Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the website of the Company (http://www.hcclhealthcare.com/):

- The unaudited consolidated financial statements of the Group for the six months ended June 30, 2017 is disclosed in the 2017 interim report of the Company published on September 21, 2017 from pages 18 to 50. Please see also a link to the prospectus of the Company:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0228/LTN20170228013.pdf

- The audited consolidated financial statements of the Group for the year ended December 31, 2016 is disclosed in the 2016 annual report of the Company published on April 24, 2017 from pages 63 to 140. Please see also a link to the annual report 2016 of the Company:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0424/LTN20170424449.pdf

- The audited consolidated financial statements of the Group as at December 31, 2014 and 2015 and for the period from February 21, 2014 (date of incorporation of the Company) to December 31, 2014 and the year ended December 31, 2015 is disclosed in the prospectus of the Company published on February 28, 2017 from pages IA-4 to IA-82. Please see also a link to the prospectus of the Company:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0921/LTN20170921291.pdf

B. STATEMENT OF INDEBTEDNESS

As at the close of business on October 31, 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group did not have any bank loans and did not have any plan for material external debt financing except for the Facility Agreement.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, financial leases or hire purchase commitments, liabilities under acceptances or acceptance credits or guarantees or other material contingent liabilities as at October 31, 2017.

C. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

As mentioned in the 2017 interim report issued by the Company for the six months ended June 30, 2017, the Group has been exploring development opportunities that emerged from the development under the macro environment of comprehensive and deepening reform in the Chinese healthcare system. The Group continued to uphold the development strategy of expansion through undergoing mergers and acquisitions and digging into the existing business operations to unearth value-adding and innovative services models, as a result, the Group had achieved promising results from the enhanced medical service quality and operating efficiency of the Group.

The Acquisition would allow the Enlarged Group to benefit from the effect of synergies and the resultant economies of scale, including the shared medical resources and intra-group cooperation. The Hospital features the use of traditional Chinese medicines and provides comprehensive medical services, which will bring broader development for the Enlarged Group. As mentioned in the section "E. Reasons for and benefits of the Transactions" in the "Letter from the Board", the Hospital has a large patient base and a leading reputation in the area it operates, therefore the Acquisition represents a valuable opportunity for the Company to significantly and quickly expand its hospital network. Upon Completion, each of the Target Group Companies will become a subsidiary of the Company and enhance the core value of the Company. The financial results of the Target Group Companies will be consolidated in the consolidated financial statements of the Company. It is expected that the revenue of the Enlarged Group will be mainly derived from the general hospital services segment and the hospital management services segment.

Based on the above, the Directors consider that the Target Company will generate a stable and recurring income stream to the Enlarged Group, enable the Enlarged Group to strengthen its asset base and provide growth potential to the Enlarged Group. The Directors are optimistic about the prospects of the full spectrum healthcare services offered by the Enlarged Group. The Enlarged Group will continue to seek opportunities to broaden the hospital network to achieve our long-term development goals and maximize shareholder value.

D. WORKING CAPITAL STATEMENT

Taking into account of the cash flow impact upon the Completion, the Facility Agreement and the financial resources available to the Enlarged Group, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of publication of this circular.

E. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2016, being the date of which the latest published audited consolidated financial statements of the Group were made up.

F. ACQUISITIONS AFTER THE DATE OF THE LATEST PUBLISHED AUDITED ACCOUNTS

Since December 31, 2016, being the date to which the latest audited accounts of the Company were made up, the Company has proposed the following acquisition whose profits or assets make or will make a material contribution to the figures in the next published audited consolidated financial statements of the Group.

The Company has entered into a non-binding framework agreement on October 9, 2017 with, amongst others, a potential vendor in relation to the acquisition of not less than 55% direct or indirect equity interests in a hospital located in Guangzhou (the "**GZ Hospital**") at a consideration to be determined by the parties upon entering into a definitive agreement (the "**GZ Acquisition**"). The GZ Acquisition involves certain restructuring, which primarily consists of, among other things, conversion of the GZ Hospital to a for-profit hospital, and transfer of the operating assets, business, licenses and employees. Subsequent to the relevant restructuring, the GZ Hospital will become a for-profit hospital in Guangzhou. Through the GZ Acquisition, the Group is able to expand its operation to, and establish its first presence in, the Guangdong region, which has sizeable populations and attractive economic conditions. The GZ Hospital is a Class III hospital with 800 beds and located in the central area of Guangzhou, in which there is a high demand in medical services. The GZ Hospital is also a hospital designated by a major PRC insurance company and within the scope of the first aid network of Guangzhou. For details, please refer to the announcement of the Company dated October 9, 2017.

The Company has also entered into a non-binding investment framework agreement on November 2, 2017 with, amongst others, a potential vendor in relation to the acquisition of 70% interest in a not-for-profit hospital located in Zhejiang province ("**ZJ Hospital**") at a consideration to be determined by the parties upon entering into a definitive agreement (the "**ZJ Acquisition**"). The ZJ Hospital, located in Zhejiang province, is in close proximity to the hospitals that the Group manages or operates. The ZJ Acquisition allows the Group and the ZJ Hospital to create a synergy effect and benefit from the resultant economies of scale, including shared medical resources and intra-group cooperation. The ZJ Acquisition could also expand the market presence of the Group's existing business and increase the Group's market shares in China, as well as further improve the brand awareness of the Group in the industry. The Company also believes that the ZJ Hospital has enormous growth potential as it has a large patient base and leading reputations in the area. For details, please refer to the announcement of the Company dated November 2, 2017.

The Company is proposing to acquire a hospital management company (the "**GS Acquisition**"). The Company is in the process of negotiation with the vendor, including the consideration and the scope of the acquisition. The Company will separately publish an announcement upon entering into an agreement in relation to the GS Acquisition.

The aggregate of the remuneration payable to and benefits in kind received by the directors of each of the target company on the GZ Acquisition, ZJ Acquisition and GS Acquisition will not be varied in consequence of the GZ Acquisition or the ZJ Acquisition.

Save as disclosed above, since December 31, 2016 (the date which the latest published audited consolidated financial statements of the Group have been made up), no member of the Group has acquired or agreed to acquire or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditor's report or next published audited consolidated financial statements of the Group.

The following is the text of a report set out on pages II-1 to II-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HOSPITAL CORPORATION OF CHINA LIMITED

Introduction

We report on the historical financial information of Jiande Hexu Enterprise Management Co., Ltd. (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-72, which comprises the combined balance sheets as at December 31, 2014, 2015 and 2016 and June 30, 2017, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the periods then ended (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-72 forms an integral part of this report, which has been prepared for inclusion in the circular of Hospital Corporation of China Limited (the "**Company**") dated December 15, 2017 (the "**Circular**") in connection with the proposed acquisition of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Group for the Track Record Period ("**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements of the Target Group for the Track Record Period. The directors of the Target Company are responsible for the preparation and fair presentation of the previously issued financial statements of the Target Group in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountant's Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the combined financial position of the Target Group as at December 31, 2014, 2015 and 2016 and June 30, 2017 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the combined statements of comprehensive income, changes in equity and cash flows for the six months ended June 30, 2016 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board ("**IAASB**"). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
December 15, 2017

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the IAASB.

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand yuan (RMB'000) except when otherwise indicated.

COMBINED BALANCE SHEETS

		As at December 31,			As at June 30,
	Note	**2014**	**2015**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	6	30,566	28,571	51,278	109,862
Land use rights	7	—	—	17,343	17,119
Intangible assets	8	—	—	2,633	2,514
Deferred income tax assets	17	—	—	621	923
Other receivables and prepayments	12	—	8,975	2,075	157
Total non-current assets		30,566	37,546	73,950	130,575
Current assets					
Inventories	9	13,178	11,852	10,489	10,117
Trade receivables	11	16,756	20,299	24,594	27,653
Other receivables and prepayments	12	779	747	5,993	1,479
Amounts due from related parties	13	83,820	144,100	69,883	63,690
Restricted cash	14	6,152	6,784	7,690	—
Cash and cash equivalents	14	8,613	6,145	13,031	26,882
Total current assets		129,298	189,927	131,680	129,821
Total assets		159,864	227,473	205,630	260,396

The notes on pages 11 to 72 are an integral part of these combined financial statements.

COMBINED BALANCE SHEETS

	Note	As at December 31,			As at June 30,
		2014	2015	2016	2017
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY					
Equity attributable to owners of the Target Company					
Combined capital	15	30,000	50,000	53,000	60,000
Reserves	16	—	—	1,668	1,668
Retained earnings		10,199	14,385	13,636	23,165
Total equity		40,199	64,385	68,304	84,833
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	17	—	—	361	624
Accruals and other payables	20	—	300	210	210
Total non-current liabilities		—	300	571	834
Current liabilities					
Borrowings	18	57,500	92,000	42,600	49,600
Trade payables	19	26,709	28,665	34,500	12,655
Accruals and other payables	20	5,809	6,571	8,009	38,091
Amounts due to related parties	13	29,647	35,402	51,062	70,885
Current income tax liabilities		—	—	584	3,498
Deferred income		—	150	—	—
Total current liabilities		119,665	162,788	136,755	174,729
Total liabilities		119,665	163,088	137,326	175,563
Total equity and liabilities		159,864	227,473	205,630	260,396

The notes on pages 11 to 72 are an integral part of these combined financial statements.

The financial statements on pages 4 to 10 were approved by the Board of Directors on December 15, 2017 and were signed on its behalf.

Zhang Xiaopeng

Lin Sheng

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31,			Six months ended June 30,	
	Note	**2014**	**2015**	**2016**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	21	142,047	149,782	154,210	75,041	73,241
Cost of revenue	22	(130,535)	(132,137)	(140,549)	(68,273)	(55,774)
Gross profit		11,512	17,645	13,661	6,768	17,467
Selling expenses	22	—	—	(95)	(62)	(40)
Administrative expenses	22	(10,154)	(11,010)	(11,282)	(5,240)	(5,002)
Other (losses)/gains - net	23	(189)	(234)	(537)	(143)	161
Other income	24	1,206	1,710	3,537	1,166	123
Operating profit		2,375	8,111	5,284	2,489	12,709
Finance income	26	113	156	81	50	62
Finance expense	26	(3,280)	(4,081)	(3,934)	(2,566)	—
(Loss)/Profit before income tax		(792)	4,186	1,431	(27)	12,771
Income tax expense	27	—	—	(512)	(84)	(3,242)
(Loss)/Profit for the year/period		(792)	4,186	919	(111)	9,529
Other comprehensive income		—	—	—	—	—
Total comprehensive income		(792)	4,186	919	(111)	9,529
(Loss)/Profit and total comprehensive income attributable to owners of the Target Company		(792)	4,186	919	(111)	9,529

The notes on pages 11 to 72 are an integral part of these combined financial statements.

COMBINED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owners of the Target Company				
	Note	Combined capital	Reserves	Retained earnings	Sub-total	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at January 1, 2014		10,000	—	10,991	20,991	20,991
Comprehensive income						
-Loss for the year		—	—	(792)	(792)	(792)
Capital contribution by shareholders	15	20,000	—	—	20,000	20,000
Balance at December 31, 2014		30,000	—	10,199	40,199	40,199
Balance at January 1, 2015		30,000	—	10,199	40,199	40,199
Comprehensive income						
-Profit for the year		—	—	4,186	4,186	4,186
Capital contribution by shareholders	15	20,000	—	—	20,000	20,000
Balance at December 31, 2015		50,000	—	14,385	64,385	64,385
Balance at January 1, 2016		50,000	—	14,385	64,385	64,385
Comprehensive Income						
-Profit for the year		—	—	919	919	919
Business combinations	30	3,000	—	—	3,000	3,000
Transfer of reserves		—	1,668	(1,668)	—	—
Balance at December 31, 2016		53,000	1,668	13,636	68,304	68,304

		Attributable to owners of the Target Company				
	Note	**Combined capital**	**Reserves**	**Retained earnings**	**Sub-total**	**Total equity**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at January 1, 2017		53,000	1,668	13,636	68,304	68,304
Comprehensive income						
-Profit for the period		—	—	9,529	9,529	9,529
Capital contribution by shareholders	15	7,000	—	—	7,000	7,000
Balance at June 30, 2017		60,000	1,668	23,165	84,833	84,833
(*Unaudited*)						
Balance at January 1, 2016		50,000	—	14,385	64,385	64,385
Comprehensive income						
-Loss for the period		—	—	(111)	(111)	(111)
Business combinations	30	3,000	—	—	3,000	3,000
Balance at June 30, 2016		53,000	—	14,274	67,274	67,274

The notes on pages 11 to 72 are an integral part of these combined financial statements.

COMBINED STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,			Six months ended June 30,	
		2014	**2015**	**2016**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Cash flows from operating activities						
Cash generated from operations	29	20,412	18,261	14,485	7,115	2,790
Income tax paid		—	—	—	—	(367)
Interests received		113	156	81	50	62
Net cash generated from operating activities		20,525	18,417	14,566	7,165	2,485
Cash flows from investing activities						
(Increase)/decrease in restricted deposits		(6,152)	(632)	(907)	2,553	7,690
Purchase of property, plant and equipment		(4,337)	(10,290)	(36,370)	(18,793)	(24,646)
Net cash received in business combinations	30	—	—	1	1	—
Loan to related parties		(176,846)	(138,580)	(148,701)	(70,431)	(66,008)
Repayments from related parties		121,342	78,300	222,918	78,080	72,201
Net cash used in/(generated from) investing activities		(65,993)	(71,202)	36,941	(8,590)	(10,763)

	Note	Year ended December 31,			Six months ended June 30,	
		2014	**2015**	**2016**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cash flows from financing activities						
Proceeds from borrowings	29	87,500	110,340	73,200	63,600	49,600
Repayment of borrowings	29	(68,000)	(75,840)	(122,600)	(66,000)	(42,600)
Interest paid		(3,178)	(4,183)	(4,471)	(2,701)	(1,171)
Capital contribution from shareholders	15	20,000	20,000	—	—	7,000
Borrowings from related parties	29	7,200	—	31,750	30,350	12,300
Repayments of borrowings to related parties	29	—	—	(22,500)	(10,000)	(3,000)
Net cash generated from/(used in) financing activities		43,522	50,317	(44,621)	15,249	22,129
Net (decrease)/increase in cash		(1,946)	(2,468)	6,886	13,824	13,851
Cash and cash equivalents at beginning of year/period		10,559	8,613	6,145	6,145	13,031
Cash and cash equivalents at end of year/period		8,613	6,145	13,031	19,969	26,882

The notes on pages 11 to 72 are an integral part of these combined financial statements.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

1.1 General information

Jiande Hexu Enterprise Management Co., Ltd. ("**Jiande Hexu**" or the "**Target Company**") was incorporated in the People's Republic of China (the "**PRC**") on September 19, 2017 as a limited liability company. The address of Jiande Hexu's registered office is Room 316, Building No.3, Xin'an Garden, Xin'an River Street, Jiande, Hangzhou, Zhejiang, the PRC.

Jiande Hexu is an investment holding company. Jiande Hexu, together with its subsidiaries listed in Note 1.2 (collectively referred to as the "**Target Group**"), are principally engaged in (i) operation and management of its privately owned hospital, Jiande Hospital of Traditional Chinese Medicine Co., Ltd. ("**Jiande Hospita**l") and (ii) wholesale of pharmaceutical products (together "**the Target Business**") in the PRC.

1.2 Reorganization

Prior to the incorporation of Jiande Hexu and the completion of the reorganization as described below (the "**Reorganization**"), the Target Business was carried out by Jiande Hospital, Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. ("**DJ Pharmaceutical Technology**") and Zhejiang Dajia Medicines Co., Ltd. ("**DJ Medicines**") (collectively referred to as the "**Operating Companies**"). The Operating Companies were ultimate controlled by Mr. Hong Jiangxin ("**Mr. Hong**" or the "**Controlling Shareholder**") before and immediately after the Reorganization.

Pursuant to the Reorganization in preparation for the acquisition, on September 28, 2017, 70% equity interests of each of the Operating Companies engaged in the Target Business were transferred to Jiande Heyue Enterprise Management Co., Ltd. ("**Jiande Heyue**"), a wholly owned subsidiary of Jiande Hexu. The remaining 30% equity interests of each of the Operating Companies were owned by Zhejiang Xinxiangli Investment Co., Ltd. ("**Xinxiangli Investment**"), a company incorporated under the laws of the PRC with limited liability and held as to 83% by Mr. Hong. The Reorganization involved the followings:

Carve-out of non-Target Business

(i) On August 29, 2017, Xinxiangli Investment, acquired the entire equity interests in Zhejiang Dajia Medical Instruments Co., Ltd. ("**DJ Medical Instruments**") from Jiande Hospital, with a consideration of RMB20,000,000. The consideration has been fully settled on September 29, 2017.

Incorporation of holding company

(ii) On September 20, 2017, Jiande Hexu established Jiande Heyue as a limited liability company in the PRC.

Transfer of shares of the Operating Companies

(iii) On August 29, Xinxiangli Investment acquired 100% equity interests of DJ Medicines from DJ Medical Instruments, with a consideration of RMB 10,000,000.

(iv) On September 28, Jiande Heyue acquired 70% equity interests of DJ Medicines from Xinxiangli Investment, with a consideration of RMB7,000,000.

(v) On September 28, Jiande Heyue acquired 40% equity interests of Jiande Hospital from Xinxiangli Investment, with a consideration of RMB24,960,000.

(vi) On September 28, Jiande Heyue acquired 30% equity interests of Jiande Hospital from Mr. Hong, with a consideration of RMB18,720,000.

(vii) On September 28, Jiande Heyue acquired 40% equity interests of DJ Pharmaceutical Technology from Xinxiangli Investment, with a consideration of RMB16,160,000.

(viii) On September 28, Jiande Heyue acquired 30% equity interests of DJ Pharmaceutical Technology from Mr. Hong, with a consideration of RMB12,120,000.

The considerations related to the transfer of shares of the Operation Companies have been fully settled on September 28, 2017.

Upon completion of the Reorganization and as at the date of this report, Jiande Hexu had direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation/ establishment	Issued and paid-in capital	Attributable equity interest of the Target Group				At the date of this report	Principal activities/ place of operation
			December 31,			June 30,		
			2014	2015	2016	2017		
Directly owned:								
Jiande Heyue Enterprise Management Co., Ltd. (建德和悦企業管理有限公司)*	The PRC, on September 20, 2017	RMB80,000,000	N/A	N/A	N/A	N/A	100%	Investment holding, The PRC
Indirectly owned:								
Jiande Hospital of Traditional Chinese Medicine Co., Ltd. (建德中醫院有限公司)*(a)	The PRC, on August 6, 1984	RMB10,000,000	100%	100%	100%	100%	70%	General hospital services, The PRC
Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. (建德大家中醫藥科技有限公司)* (b)	The PRC, on November 12, 2014	RMB40,000,000	100%	100%	100%	100%	70%	Property management provided to Jiande Hospital
Zhejiang Dajia Medicines Co., Ltd. (浙江大佳醫藥有限公司)*(c)	The PRC, on August 11, 2005	RMB10,000,000	—	—	100%	100%	70%	Wholesale of pharmaceutical products, The PRC

*: English translation is for identification purpose only. The English names of companies incorporated in the PRC represent the best efforts by management of Hospital Corporation of China Limited ("HCCL") in translation their Chinese names as they do not have official English names.

(a) Jiande Hospital was founded by Health Bureau of Jiande city in Hangzhou, the PRC on August 6, 1984.

On August 10, 2004, Jiande Hospital completed the shareholding reform and became a Public Institution with initial fund of RMB10,000,000, among which Xinxiangli Investment and Health Bureau of Jiande city in Hangzhou, the PRC contributed RMB9,000,000 and RMB1,000,000, respectively.

On March 28, 2015, Jiande Hospital registered as a non-public not-for-profit general hospital with founder contribution of RMB10,000,000, among which Xinxiangli Investment, Mr. Hong and Health Bureau of Jiande city in Hangzhou, the PRC, the predecessor of Health and Family Planning Bureau of Jiande City in Hangzhou, the PRC, contributed RMB6,000,000, RMB3,000,000 and RMB1,000,000, respectively. On September 30, 2015, Health and Family Planning Bureau of Jiande City in Hangzhou, the PRC transferred the 10% of founder right to Xinxiangli Investment with the consideration of RMB1,000,000.

On September 19, 2016, Jiande Hospital registered as a limited liability company and for-profit general hospital with registered capital of RMB10,000,000, and Xinxiangli Investment and Mr. Hong held 70% and 30% of total registered capital. Pursuant to the agreement of conversion from not-for-profit to for-profit hospital signed by Health and Family Planning Bureau of Jiande City in Hangzhou, the PRC and Jiande Hospital on July 27, 2016, all the assets and legal relations were succeeded by Jiande Hospital after the conversion, and Jiande Hospital was not required to pay any taxes in relation to the retained earnings succeeded.

No statutory financial statements have been prepared for Jiande Hospital for the financial years ended December 31, 2014, 2015 and 2016, as there is no statutory requirement for this company to issue financial statements in its respective places of incorporation.

(b) DJ Pharmaceutical Technology was established by Xinxiangli Investment and Mr. Hong on November 12, 2014.

No statutory financial statements have been prepared for DJ Pharmaceutical Technology for the period ended December 31, 2014 and the financial years ended December 31, 2015 and 2016, as there is no statutory requirement for this company to issue financial statements in its respective places of incorporation.

(c) DJ Medicines was established by three independent third party individuals as a limited liability company on August 11, 2005 with the registered name of Hangzhou Shuntian Medicines Co., Ltd. (杭州順天醫藥有限公司).

On March 1, 2016, DJ Medical Instruments acquired the entire equity interests in DJ Medicines from another three independent third party individuals with a consideration of RMB3,000,000, and thereafter, DJ Medicines became a company ultimate controlled by the Controlling Shareholder. On February 7, 2017, DJ Medicines changed its registered name from 'Hangzhou Shuntian Medicines Co., Ltd.' to 'Zhejiang Dajia Medicines Co., Ltd.'. On February 27, 2017, DJ Medical Instruments increased the registered capital of DJ Medicines from RMB3,000,000 to RMB10,000,000. The increased registered capital was fully paid by DJ Medical Instruments on the same day.

No statutory financial statements have been prepared for DJ Medicines for the financial year ended December 31, 2016, as there is no statutory requirement for this company to issue financial statements in its respective places of incorporation.

1.3 **Basis of presentation**

The companies now comprising the Target Group, engaging in the Target Business, were under common control of Mr. Hong, the controlling shareholder, immediately before and after the Reorganization. Accordingly, the Reorganization is regarded as a business combination under common control, and for the purpose of this report, the Historical Financial Information has been prepared on a combined basis.

The Historical Financial Information has been prepared by including the historical financial information of the companies engaged in the Target Business, under the common control of Mr. Hong immediately before and after the Reorganization and now comprising the Target Group, the Operating Companies were treated as one operation group throughout the period presented. Upon the completion of the Reorganization, the 70% of the equity interest of each of Jiande Hospital, DJ pharmaceutical Technology and DJ Medicines were transferred to Jiande Heyue and the remaining 30% equity interest of each of Jiande Hospital, DJ pharmaceutical Technology and DJ Medicines were recognized as non-controlling interests.

The net assets of the combining companies were combined using the existing book values from Mr. Hong's perspective. No amount is recognized in consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest.

For companies acquired from or disposed to a third party during each of the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, they are included in or excluded from the financial statements of the Target Group from the date of the acquisition or disposal.

Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on combination.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in conformity with HCCL's accounting policies and in accordance with the International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standard Board ("**IASB**") are set out below. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

All relevant standards, amendments and interpretations to the existing standards that are effective during all the years and periods presented have been adopted by the Target Group consistently throughout the years and periods.

The Historical Financial Information has been also prepared in accordance with the applicable requirements of the Hong Kong Companies Ordinance (Cap.622).

2.1.1 *Going concern*

The Target Group meets its day-to-day working capital requirements through its operating cash inflows and amounts due to related parties. The current economic conditions continue to create uncertainty particularly over the level of demand for the Target Group's services for the foreseeable future. The Target Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Target Group should be able to operate within the level of its current general hospital service capacity. After making enquiries, the directors of HCCL have a reasonable expectation that the Target Group has adequate resources to continue in operational existence for the foreseeable future through an forecasted operating cash inflows and confirmation provided by related parties in relation to non-repayment of balances due to related parties (June 30, 2017: approximately RMB70,885,000), if there is a foreseeable working capital insufficiency within next 12 months. The Target Group therefore continues to adopt the going concern basis in preparing its combined financial statements.

2.1.2 ***Changes in accounting policy and disclosures***

Impact of new or revised standards and amendments to existing standards that are effective on or after January 1, 2018

The following new standards, amendments and interpretations to existing standards which have been issued but are effective for the fiscal year beginning on or after January 1, 2018 and have not been early adopted by the Target Group:

		Effective for annual periods beginning on or after
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Lease	January 1, 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Amendment to IFRS 10 and IAS 28	Sale or Contribution of assets between an investor and its associate or joint venture	Deferred

(i) *IFRS 9 Financial instruments*

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Target Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018.

The Target Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

- No debt instruments were classified as available-for-sale (AFS) financial assets.

- Debt instruments currently classified as measured at amortised cost appear to meet the conditions for classification at amortised cost under IFRS9.

There will be no impact on the Target Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Target Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Target Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. However, at this stage the Target Group does not expect to identify any new hedge relationships. Currently, the Target Group has no existing hedge relationships. Accordingly, the Target Group does not expect a significant impact on the accounting for hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, contract assets under IFRS 15 Revenue from Contracts with Customers and lease receivables. While the group has not yet complete the detailed assessment of how its impairment would affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Target Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

(ii) *IFRS 15 Revenue from contracts with customers*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption. The Target Group will adopt the new standard from 1 January 2018.

Management is currently assessing the effects of applying the new standard on the Target Group's financial statements and has identified the following areas that are likely to be affected:

- revenue from service - the application of IFRS 15 may result in the identification of separate performance obligations. For the general hospital service, the application of IFRS 15 may not have significant impact to the timing of the recognition of revenue, and

- rights of return in wholesale of pharmaceutical products — IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

According to the preliminary assessment made by the shareholders of the Target Company, the shareholders of the Target Company do not expect the application of IFRS 15 will have significant impact on the financial performance and positions of the Target Group.

(iii) *IFRS 16 Leases*

IFRS 16 was issued in January 2016. It will results in almost all leases being recognized on the balance sheet for lessee, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Target Group's operating leases. As at the reporting date, except for the land use right, the Target Group has no non-cancellable operating lease commitments. However, the Target Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Target Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Target Group does not intend to adopt the standard before its effective date.

(iv) *Amendment to IFRS 10 and IAS 28*

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

The Target Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Target Group's operation. According to the assessment made by the directors of the Target Company, except as described above, the directors of the Target Company do not expect the application of the new and revised IFRSs in issue but not yet effective will have significant impact on the financial performance and positions of the Target Group.

2.2 **Subsidiaries**

2.2.1 ***Consolidation***

A subsidiary is an entity (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

(a) *Business combination*

(i) Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the performance of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealized gains on transactions between combining businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

(ii) Accounting for acquisition of business not under common control

The Target Group applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Target Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Target Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note2.6). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Target Group's accounting policies.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 ***Separate financial statements***

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the combined financial statements of the investee's net assets including goodwill.

2.3 **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.4 **Property, plant and equipment**

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost of each asset to their residual values over their estimated useful lives, as follows:

—	Leasehold improvement	Shorter of remaining lease term or estimated useful life
—	Buildings	20 years
—	Medical equipment	10 years
—	Vehicles	10 years
—	Office equipment and furniture	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses) — net' in the combined statement of comprehensive income.

Construction-in-progress (the "**CIP**") represents buildings under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to buildings and depreciated in accordance with the policy as stated above.

2.5 **Land use rights**

Land use rights are up-front payments to acquire long-term interest in the usage of land, which are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land from the date when the respective rights were granted deducting the government grants received relating to the land use rights. Amortisation of land use rights is calculated on a straight-line basis over the period of the lease and is recognised in profit or loss.

2.6 **Intangible assets**

(a) ***Goodwill***

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the Target Group of CGUs containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) ***Licences***

Licences acquired in a business combination are recognised at fair value at the acquisition date. These licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives of 4.7 years.

(c) ***Computer software***

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives of 5 years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

2.7 **Impairment of non-financial assets**

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 **Financial assets**

2.8.1 ***Classification***

The Target Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Target Group's loans and receivables comprise 'trade receivables', 'other receivables, deposits and prepayments', 'amounts due from related parties', 'cash and cash equivalents' and 'restricted cash' in the balance sheet (Notes 2.12 and 2.13).

2.8.2 ***Recognition and measurement***

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.9 **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Target Company or the counterparty.

2.10 **Impairment of financial assets**

Assets carried at amortised cost

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Target Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2.11 **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined on a weighted-average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.12 **Trade and other receivables**

Trade receivables are amounts due from patients and governments' social insurance schemes rendered in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.13 **Cash and cash equivalents**

In the combined statement of cash flows and combined balance sheets, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 **Combined capital**

Combined capital is classified as equity.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.18 **Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) ***Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Target Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) ***Deferred income tax***

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the

Target Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Target Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) ***Offsetting***

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 **Employee benefits**

Pension obligations

The Target Group companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payables to the existing and future retired employees under these plans and the Target Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Target Group.

2.20 **Revenue recognition**

The Target Group's revenue is primarily derived from rendering general hospital services and wholesale of pharmaceutical products.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the goods sold and services rendered in the ordinary course of the Target Group's activities, stated net of discounts and sales related taxes. The Target Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Target Group's activities, as described below. The Target Group bases its estimates on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) ***General hospital services***

Revenues from general hospital services are recognised when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to the Target Group and such benefit could be reliably measured. Transactions are settled by payment of social security card, cash or credit card.

(b) ***Sales of goods***

Revenue from sale of pharmaceuticals, wholesale of pharmaceutical products and other sale of goods is recognised at the point that the risks and rewards of the inventory have passed to customers, which is the point of dispatch. Transactions are settled by payment of cash, social security card or credit card.

2.21 **Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to land use rights are deducted from the consideration paid for the rights to use the land from the date when the respective rights were granted.

2.22 **Interest income**

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Target Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.23 **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

2.24 **Dividend distribution**

Dividend distribution to the Target Company's shareholders is recognised as a liability in the Target Group's financial statements in the period in which the dividends are approved by the Target Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks: market risk including foreign exchange risk, price risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on The Target Group's financial performance. Risk management is carried out by the senior management of The Target Group and approved by the executive directors.

(a) ***Market Risk***

(i) *Interest rate risk*

The Target Group's interest rate risk arises from borrowings, cash and cash equivalents and restricted cash.

The interest rates and maturities of the Target Group's cash and cash equivalents and borrowings are disclosed in Note 14 and 18, respectively. The Target Group's income and operating cash flows are substantially independent of changes in market interest rates as the Target Group has no significant interest-bearing assets. The details of the Target Group's exposure to changes in interest rates attributable to its borrowings have been disclosed in Note 18. Borrowings carried at fixed rates expose the Target Group to fair value interest-rate risk. The directors of the Target Company believe that there is no material interest rate risk related to the Target Group's borrowings and cash and cash equivalents.

(b) ***Credit Risk***

Credit risk mainly arises from short-term deposits, bank balance, amounts due from related parties and trade and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets.

The credit risk of short-term deposits and bank balances is limited because the counterparties are state-owned or reputable commercial banks which are high-credit-quality financial institutions in the PRC.

In order to minimise the credit risk, the management of the Target Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the

Target Group reviews the recoverable amount of each material individual debt at the end of each of the reporting period based on historical settlement records and past experience to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Target Company believe that the credit risk is significantly reduced.

The Target Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on cash and bank deposit balances is limited because the majority of the counterparties are reputable commercial banks.

Management of the Target Group makes individual assessment on the recoverability of amounts due from related parties based on historical settlement records and past experience. The shareholders of the Target Company believe that there is no material credit risk inherent in the Target Group's outstanding balance of amounts due from related parties.

(c) ***Liquidity Risk***

The Target Group aims to maintain sufficient cash and cash equivalents to meet operating capital requirements.

The table below analyses the Target Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2014					
Borrowings and interests	58,605	—	—	—	58,605
Trade payables	26,709	—	—	—	26,709
Accruals and other payables (excluding accrued employee benefits, other taxes and advance from third parties)	3,029	—	—	—	3,029
Amounts due to related parties	29,647	—	—	—	29,647
	117,990	—	—	—	117,990

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2015					
Borrowings and interests	94,331	—	—	—	94,331
Trade payables	28,665	—	—	—	28,665
Accruals and other payables (excluding accrued employee benefits, other taxes and advance from third parties)	2,989	300	—	—	3,289
Amounts due to related parties	35,402	—	—	—	35,402
	161,387	300	—	—	161,687
At December 31, 2016					
Borrowings and interests	43,034	—	—	—	43,034
Trade payables	34,500	—	—	—	34,500
Accruals and other payables(excluding accrued employee benefits, other taxes and advance from third parties)	3,386	110	100	—	3,596
Amounts due to related parties	51,062	—	—	—	51,062
	131,982	110	100	—	132,192
At June 30, 2017					
Borrowings and interests	51,229	—	—	—	51,229
Trade payables	12,655	—	—	—	12,655
Accruals and other payables (excluding accrued employee benefits, other taxes and advance from third parties)	35,336	110	100	—	35,546
Amounts due to related parties	70,885	—	—	—	70,885
	170,105	110	100	—	170,315

3.2 **Capital Risk Management**

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Target Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt.

The Target Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Target Group as at December 31, 2014, 2015 and 2016 and June 30, 2017 was as follows:

	As at December 31,			**As at June 30,**
	2014	**2015**	**2016**	**2017**
The liability-to-asset ratio	75%	72%	67%	67%

There were no changes in the Target Group's approach to capital management during the year ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017.

Neither the Target Company nor any of its subsidiaries are subject to externally imposed capital requirements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) ***Estimates of goodwill impairment test***

The Target Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. When applying valuation technique, the Target Group relies on a number of factors and judgements, including, among others, historical results, business plans, forecasts and market data.

Changes in the conditions for these estimates and assumptions can significantly affect the assessed result of goodwill impairment test.

For the sensitivity analysis and other details, please refer to Note 8.

No impairment was charged during the year ended December 31, 2016 and the six months ended June 30, 2017.

(b) ***Current and Deferred Income taxes***

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Target Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Target Group recognises deferred tax assets based on estimates that it is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilised. The recognition of deferred tax assets mainly involved management's judgments and estimations about the timing and the amount of taxable profits of the companies who had tax losses.

(c) ***Purchase price allocation***

The application of business combination accounting requires the use of significant estimates and assumptions. The purchase method of accounting for business combinations requires the Target Group to estimate the fair value of identifiable assets acquired and liabilities assumed. This exercise requires the use of management's assumptions and judgement, which would not reflect unanticipated events and circumstances that may occur.

An asset is identifiable if it either:

(a) is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Allocation of the purchase price affects the results of the Target Group as finite lived intangible assets are amortised, whereas indefinite lived intangible assets, including goodwill, are not amortised and could result in differing amortisation charges based on the allocation to indefinite lived and finite lived intangible assets.

(d) ***Consolidation***

Consolidation of Jiande Hospital

As set forth in Note 1.2, Jiande Hospital was a public institution since August 6, 1984 and was as a not-for-profit hospital from March 28, 2015 to September 18, 2016. On September 19, 2016, Jiande Hospital completed its conversion and became a limited company (the "**Conversion**").

The management has exercised significant judgments in determining whether the Controlling Shareholder has control over Jiande Hospital before its Conversion. In exercising such judgment, the management considers the purpose and design of the hospital, what the relevant activities are and how decisions about those activities are made, whether the rights of the Controlling Shareholder gives the current ability to direct the relevant activities, whether rights exercisable by other parties as members of the internal governance are substantive, whether the Controlling Shareholder is exposed, or has rights, to variable returns from its involvement with the hospital, and whether the Controlling Shareholder has the ability to use its power over the hospital to affect the amount of the Target Group's returns.

After assessment, the management has concluded that, the Controlling Shareholder has the decision making power over the internal governance body to direct the relevant activities of Jiande Hospital before the Conversion, so the Controlling Shareholder has controlled and thus the Target Group consolidated Jiande Hospital for the years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2017.

5 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ('**CODM**'). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Controlling Shareholders that make strategic decisions.

The Target Group assesses the performance of the operating segments based on a measure of earnings before interests, income tax, depreciation and amortisation ('**EBITDA**').

(a) ***General hospital services***

Revenue from this segment is derived from hospital services provided at Jiande Hospital.

(b) ***Wholesale of pharmaceutical products***

Revenue from this segment is derived from wholesale of pharmaceutical products at DJ Medicines.

Segment information about the Target Group's reportable segment is presented below.

	General hospital services	**Wholesale of pharmaceutical products**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Year ended December 31, 2014			
Revenue from external customers	142,047	—	142,047
EBITDA	5,684	—	5,684
Depreciation	(3,309)	—	(3,309)
Finance income - net	(3,167)	—	(3,167)
Profit before tax	(792)	—	(792)
As at December 31, 2014			
Total assets	159,864	—	159,864
Total liabilities	119,665	—	119,665
Other Segment information for the year ended December 31, 2014			
Depreciation and amortization	(3,309)	—	(3,309)
Impairment	(2,048)	—	(2,048)
Additions of non-current assets except deferred tax assets	4,617	—	4,617

	General hospital services	Wholesale of pharmaceutical products	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended December 31, 2015			
Revenue from external customers	149,782	—	149,782
EBITDA	11,804	—	11,804
Depreciation	(3,693)	—	(3,693)
Finance income - net	(3,925)	—	(3,925)
Profit before tax	4,186	—	4,186
As at December 31, 2015			
Total assets	227,473	—	227,473
Total liabilities	163,088	—	163,088
Other Segment information for the year ended December 31, 2015			
Depreciation and Amortization	(3,693)	—	(3,693)
Impairment	(2,379)	—	(2,379)
Addition of non-current assets except deferred tax assets	10,673	—	10,673

	General hospital services	Wholesale of pharmaceutical products	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended December 31, 2016			
Segment revenue	146,275	19,614	165,889
Inter-segment revenue	—	(11,679)	(11,679)
Revenue from external customers	146,275	7,935	154,210
EBITDA	8,842	214	9,056
Depreciation	(3,566)	(9)	(3,575)
Amortization	—	(197)	(197)
Finance income - net	(3,857)	4	(3,853)
Profit before tax	1,419	12	1,431
As at December 31, 2016			
Total assets	194,339	11,291	205,630
Total liabilities	125,226	12,100	137,326
Other Segment information for the year ended December 31, 2016			
Depreciation and amortization	(3,566)	(206)	(3,772)
Impairment	(866)	—	(866)
Addition of non-current assets except deferred tax assets	36,162	3,799	39,961

	General hospital services	Wholesale of pharmaceutical products	Total
	RMB'000	*RMB'000*	*RMB'000*
Six months ended June 30, 2017			
Segment revenue	72,822	3,300	76,122
Inter-segment revenue	—	(2,881)	(2,881)
Revenue from external customers	72,822	419	73,241
EBITDA	15,598	(719)	14,879
Depreciation	(1,954)	(97)	(2,051)
Amortization	—	(119)	(119)
Finance income - net	53	9	62
Profit before tax	13,697	(926)	12,771
As at June 30, 2017			
Total assets	247,201	13,195	260,396
Total liabilities	170,105	5,458	175,563
Other Segment information for the six months ended June 30, 2017			
Depreciation and amortization	(1,954)	(216)	(2,170)
Impairment	(414)	—	(414)
Additions of non-current assets except deferred tax assets	58,608	112	58,720

	General hospital services	Wholesale of pharmaceutical products	Total
	RMB'000	*RMB'000*	*RMB'000*
Six months ended June 30, 2016 (Unaudited)			
Segment revenue	71,482	6,013	77,495
Inter-segment revenue	—	(2,454)	(2,454)
Revenue from external customers	71,482	3,559	75,041
EBITDA	4,088	317	4,405
Depreciation	(1,837)	(1)	(1,838)
Amortization	—	(78)	(78)
Finance income-net	(2,516)	—	(2,516)
Profit before tax	(265)	238	(27)
Other Segment information for the six months ended June 30, 2016 (Unaudited)			
Depreciation and amortization	(1,837)	(79)	(1,916)
Impairment	(402)	—	(402)
Additions of non-current assets except deferred tax assets	18,688	1,146	19,834

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Medical equipment	Office equipment, furniture and motor vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2014						
Cost	24,579	—	16,367	4,847	—	45,793
Accumulated depreciation	(7,916)	—	(7,019)	(2,610)	—	(17,545)
Net book amount	16,663	—	9,348	2,237	—	28,248
Year ended December 31, 2014						
Opening net book amount	16,663	—	9,348	2,237	—	28,248
Additions	1,238	—	3,693	454	242	5,627
Depreciation charge	(1,277)	—	(1,468)	(564)	—	(3,309)
Closing net book amount	16,624	—	11,573	2,127	242	30,566
At December 31, 2014						
Cost	25,817	—	19,791	5,301	242	51,151
Accumulated depreciation	(9,193)	—	(8,218)	(3,174)	—	(20,585)
Net book amount	16,624	—	11,573	2,127	242	30,566
Year ended December 31, 2015						
Opening net book amount	16,624	—	11,573	2,127	242	30,566
Additions	147	—	640	603	308	1,698
Depreciation charge	(1,283)	—	(1,788)	(622)	—	(3,693)
Closing net book amount	15,488	—	10,425	2,108	550	28,571
At December 31, 2015						
Cost	25,947	—	19,369	5,904	550	51,770
Accumulated depreciation	(10,459)	—	(8,944)	(3,796)	—	(23,199)
Net book amount	15,488	—	10,425	2,108	550	28,571
Year ended December 31, 2016						
Opening net book amount	15,488	—	10,425	2,108	550	28,571
Additions	—	391	2,463	407	23,052	26,313
Disposals	—	—	(4)	(27)	—	(31)
Depreciation charge	(1,172)	—	(1,781)	(622)	—	(3,575)
Closing net book amount	14,316	391	11,103	1,866	23,602	51,278

	Buildings	Leasehold improvements	Medical equipment	Office equipment, furniture and motor vehicles	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2016						
Cost	25,947	391	21,622	6,241	23,602	77,803
Accumulated depreciation	(11,631)	—	(10,519)	(4,375)	—	(26,525)
Net book amount	14,316	391	11,103	1,866	23,602	51,278
Six months ended June 30, 2017						
Opening net book amount	14,316	391	11,103	1,866	23,602	51,278
Additions	—	—	7,388	1,692	51,558	60,638
Disposals	(3)	—	—	—	—	(3)
Depreciation charge	(586)	(39)	(1,048)	(378)	—	(2,051)
Closing net book amount	13,727	352	17,443	3,180	75,160	109,862
At June 30, 2017						
Cost	25,862	391	29,010	7,932	75,160	138,355
Accumulated depreciation	(12,135)	(39)	(11,567)	(4,752)	—	(28,493)
Net book amount	13,727	352	17,443	3,180	75,160	109,862

Depreciation charges were expensed in the following categories in the combined statements of comprehensive income:

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Cost of revenue	2,889	3,227	3,092	1,592	1,673
Administrative expenses	420	466	483	246	378
	3,309	3,693	3,575	1,838	2,051

During the years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2016 and 2017, the Target Group has capitalised borrowing costs amounting to nil, nil, RMB537,000, RMB135,000 and RMB1,171,000 on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of nil, nil, 5.65%, 5.97% and 5.28%.

The Target Group's buildings amounting to RMB2,271,000, RMB2,123,000, RMB2,127,000 and RMB2,055,000 have certain title defects (the "Defective Properties") as at December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2017. The Target Group does not hold building ownership certificates for the Defective Properties, nor the construction work planning permits, commencement permits or completion inspection certificates. The managements of the Operating Companies are of the opinion that the Target Group is entitled to lawfully and validly occupy or use them and no significant financial impact on the Target Group.

7 LAND USE RIGHTS

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
In the PRC, held on leases of 40 years (a)	—	—	17,343	17,568	17,119
Opening balance	—	—	—	—	17,343
Additions	—	—	17,718	17,718	—
Amortisation (c)	—	—	(375)	(150)	(224)
Closing balance	—	—	17,343	17,568	17,119

(a) The land use right was owned by DJ Pharmaceutical Technology. Pursuant to the state-owned land use right agreement entered between DJ Pharmaceutical Technology and Land and Resources Bureau of Jiande City in Hangzhou, the total consideration for this land use right was RMB19,150,000. Considering relevant tax and after deduction of government subsidies received in relation to this land use right, the initial cost of this land use right was RMB17,718,000.

(b) The land use right owned by Jiande Hospital was on allocated lands, and the book value of this land use right was zero for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017.

On August 15, 2017, Jiande Hospital entered into an agreement with Land and Resources Bureau of Jiande City in Hangzhou, the PRC to convert the allocated land use rights of certain properties into granted land use rights with a consideration of RMB12,419,000. At the date of this report, the consideration has been paid to the fiscal special account of Finance Bureau of Jiande city in Hangzhou, the PRC and Jiande Hospital is in the process of obtaining land use right certificate of the granted lands. The period of the lease will be 50 years starting from August 15, 2017.

(c) The amortisation expense of RMB375,000, RMB150,000 and RMB224,000 has been capitalised in 'property, plant and equipment' as construction-in-progress for the year ended December 31, 2016 and the six months ended June 30, 2016 and 2017.

8 INTANGIBLE ASSETS

	Goodwill	Licenses	Software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2014				
Opening net book amount	—	—	—	—
Amortisation	—	—	—	—
Closing net book amount	—	—	—	—
At December 31, 2014				
Cost	—	—	—	—
Accumulated amortisation	—	—	—	—
Net book amount	—	—	—	—
Year ended December 31, 2015				
Opening net book amount	—	—	—	—
Amortisation	—	—	—	—
Closing net book amount	—	—	—	—
At December 31, 2015				
Cost	—	—	—	—
Accumulated amortisation	—	—	—	—
Net book amount	—	—	—	—
Year ended December 31, 2016				
Opening net book amount	—	—	—	—
Additions	—	—	18	18
Business combination (Note 30)	1,712	1,100	—	2,812
Amortisation	—	(195)	(2)	(197)
Closing net book amount	1,712	905	16	2,633
At December 31, 2016				
Cost	1,712	1,100	18	2,830
Accumulated amortisation	—	(195)	(2)	(197)
Net book amount	1,712	905	16	2,633

	Goodwill	Licenses	Software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended June 30, 2017				
Opening net book amount	1,712	905	16	2,633
Additions	—	—	—	—
Amortisation	—	(117)	(2)	(119)
Closing net book amount	1,712	788	14	2,514
At June 30, 2017				
Cost	1,712	1,100	18	2,830
Accumulated amortisation	—	(312)	(4)	(316)
Net book amount	1,712	788	14	2,514

(a) ***Impairment tests for goodwill***

Goodwill of RMB1,712,000 is resulted from acquisition of DJ Medicines in 2016. DJ Medicines is principally engaged in the provision of wholesale of pharmaceutical products in the PRC.

Management reviews the business performance of each operating segment. Goodwill is monitored by the management at the operating segment level.

The following is a summary of goodwill allocation for each operation segment:

	Opening	Addition	Impairment	Closing
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2016				
Wholesale of pharmaceutical products segment	—	1,712	—	1,712
	—	1,712	—	1,712
Six months ended June 30, 2017				
Wholesale of pharmaceutical products segment	1,712	—	—	1,712
	1,712	—	—	1,712

The recoverable amount of an operating segment is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the operating segment operates.

Wholesale of pharmaceutical products segment

For wholesale of pharmaceutical products segment with significant amount of goodwill, the key assumptions, long-term growth rate and discount rate used in the value-in-use calculations as of December 31, 2016 and June 30, 2017, are as follows.

	Year ended December 31,	**Six months ended June 30,**
	2016	**2017**
Revenue (% compound growth rate)	16.46%	16.46%
Gross margin (% of revenue)	17.97%	17.97%
Long-term growth rate	3.00%	3.00%
Pre-tax discount rate	23.21%	23.72%
Recoverable amount of operating segment (RMB'000)	16,730	17,641

These assumptions have been used for the analysis of wholesale of pharmaceutical products segment.

Revenue compound growth rate is for the five-year forecast period. It is based on past performance and management's expectations of market development. If the compound growth rate of revenue had been 3% lower, there was still sufficient headroom with no impairment required for the year ended December 31, 2016 and the six months ended June 30, 2017, respectively.

The percentage of gross margins of revenue is the average percentages over the five-year forecast period. It is based on the current margin levels, with adjustments made to reflect the expected future price decrease of pharmaceutical procurement through negotiation with suppliers. If the percentage of gross margins of revenue had been 3% lower, there was still sufficient headroom with no impairment required for the year ended December 31, 2016 and the six months ended June 30, 2017, respectively.

The discount rates used are pre-tax and reflect specific risks relating to the operating segment. If the discount rates had been 3% higher, there was still sufficient headroom with no impairment required for the year ended December 31, 2016 and the six months ended June 30, 2017, respectively.

No impairment was charged during year ended December 31, 2016 and the six months ended June 30, 2017, respectively.

9 INVENTORIES

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pharmaceuticals	12,538	10,931	9,372	8,715
Medical consumables	640	921	1,117	1,402
	13,178	11,852	10,489	10,117

The analysis of the amount of inventories recognized as an expense and included in 'cost of revenue' is as follow:

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cost of inventories sold	94,461	94,518	100,395	48,834	34,329

10 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and receivables				
Trade receivables	16,756	20,299	24,594	27,653
Other receivables	779	747	2,444	968
Amounts due from related parties	83,820	144,100	69,883	63,690
Cash and cash equivalents	8,613	6,145	13,031	26,882
Restricted cash	6,152	6,784	7,690	—
	116,120	178,075	117,642	119,193
Financial liabilities at amortised costs				
Borrowing	57,500	92,000	42,600	49,600
Trade payables	26,709	28,665	34,500	12,655
Accruals and other payables (excluding accrued employee benefits, other tax liabilities and advance from third parties)	3,029	3,289	3,596	35,546
Amounts due to related parties	29,647	35,402	51,062	70,885
	116,885	159,356	131,758	168,686

11 TRADE RECEIVABLES

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	18,755	22,601	25,371	28,021
Less: provision for impairment of trade receivables	(1,999)	(2,302)	(777)	(368)
Trade receivables — net	16,756	20,299	24,594	27,653

The carrying amounts of the Target Group's trade receivables are denominated in RMB and approximate their fair values.

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the ageing analysis based on invoice date of the trade receivables was as follows:

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 - 90 days	15,723	18,490	22,231	21,256
91 - 180 days	1,092	2,305	1,473	1,819
181 days - 1 year	1,917	1,734	1,644	4,410
Over 1 year	23	72	23	536
	18,755	22,601	25,371	28,021

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the Target Group's trade receivables past due but not impaired were RMB16,625,000, RMB20,213,000, RMB24,439,000 and RMB27,152,000, respectively. These mainly related to the amounts to be claimed from the local social insurance bureau and similar government departments who are responsible for the reimbursement of medical expenses for patients who are covered by government medical insurance schemes. The management considers that based on past experience, the amounts can be recovered in reasonable time. The ageing analysis of these trade receivables was as follow:

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 - 90 days	15,592	18,405	22,077	20,755
91 - 180 days	937	1,736	1,473	1,451
181 days - 1 year	73	—	866	4,410
Over 1 year	23	72	23	536
	16,625	20,213	24,439	27,152

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the Target Group's trade receivables impaired were RMB1,999,000, RMB2,302,000, RMB777,000 and RMB368,000. The ageing analysis of the trade receivables was as follow:

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 - 90 days	—	—	—	—
91 - 180 days	155	568	—	368
181 days - 1 year	1,844	1,734	777	—
Over 1 year	—	—	—	—
	1,999	2,302	777	368

Movement on the Target Group's provision for impairment of trade receivables was as follows:

	RMB'000
Balance at January 1, 2014	—
Provision for receivables	(2,048)
Receivables written off during the year as uncollectible	49
Balance at December 31, 2014	(1,999)
Balance at January 1, 2015	(1,999)
Provision for receivables	(2,379)
Receivables written off during the year as uncollectible	2,076
Balance at December 31, 2015	(2,302)
Balance at January 1, 2016	(2,302)
Provision for receivables	(866)
Receivables written off during the year as uncollectible	2,391
Balance at December 31, 2016	(777)
Balance at January 1, 2017	(777)
Provision for receivables	(414)
Receivables written off during the year as uncollectible	823
Balance at June 30, 2017	(368)

The provision for receivables impairment have been included in "administrative expenses" in the combined statements of comprehensive income. Amounts are generally written off, when there is no expectation of recovering additional cash.

12 OTHER RECEIVABLES AND PREPAYMENTS

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for rental expenses	—	—	248	78
Prepayments to suppliers	—	—	3,301	433
Prepayments for purchases of land use right	—	8,975	—	—
Prepayments for purchases of property, plant and equipment	—	—	2,075	157
Advances to employees	169	318	1,949	333
Receivables from social security bureau	513	214	326	184
Others	97	215	169	451
Total	779	9,722	8,068	1,636
Less: non-current portion	—	8,975	2,075	157
Current portion	779	747	5,993	1,479

The carrying amounts of other receivables, deposits and prepayments are denominated in RMB and approximate their fair values.

13 BALANCES WITH RELATED PARTIES

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the balances with related parties are unsecured, interest-free, receivable/repayable on demand and are denominated in RMB.

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from a related parties				
- Others (not trade in nature)				
Dajia Group Co., Ltd.	30,580	78,860	13,193	—
DJ Medical Instruments	53,240	65,240	56,690	43,690
Xinxiangli Investment	—	—	—	20,000
	83,820	144,100	69,883	63,690

As at December 31, 2014, 2015 and 2016 and June 30, 2017, none of relevant receivables was individually determined to be impaired.

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to related parties				
-Trade in nature				
DJ Medical Instruments	22,447	28,202	34,612	45,135
-Others (not trade in nature)				
Dajia Group Co., Ltd.	—	—	8,850	21,150
DJ Medical Instruments	—	—	7,600	4,600
Xinxiangli Investment	7,200	7,200	—	—
	29,647	35,402	51,062	70,885

Their carrying values due as at December 31, 2014, 2015 and 2016 and June 30, 2017 approximate their fair values.

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the ageing analysis based on trading date of the trade payables was as follows:

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 - 90 days	4,812	1,678	2,217	8,644
90 - 180 days	2,520	2,423	1,046	1,879
180 days - 1 year	1,532	1,654	3,147	3,263
Over 1 year	13,583	22,447	28,202	31,349
	22,447	28,202	34,612	45,135

14 CASH AND CASH EQUIVALENTS

	As at December 31,			As at June 30,
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks	8,607	6,141	12,996	26,851
Cash on hand	6	4	35	31
	8,613	6,145	13,031	26,882
Restricted deposits at banks (a)	6,152	6,784	7,690	—

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The Target Group's balances of cash at banks which are mainly denominated in RMB are deposited with banks in the PRC.

(a) The restricted deposits held at banks represent guarantee for bank's acceptance bills.

15 COMBINED CAPITAL

	Amount
	RMB'000
At January 1, 2014	10,000
Capital contribution by shareholder (a)	20,000
At December 31, 2014	30,000
At January 1, 2015	30,000
Capital contribution by shareholder (a)	20,000
At December 31, 2015	50,000
At January 1, 2016	50,000
Business combinations (Note 30)	3,000
At December 31, 2016	53,000
At January 1, 2017	53,000
Capital contribution by shareholder (a)	7,000
At June 30, 2017	60,000
(Unaudited)	
At January 1, 2016	50,000
Business combinations (Note 30)	3,000
At June 30, 2016	53,000

(a) Capital contribution by shareholder

On December 9, 2014 and May 19, 2015, DJ Pharmaceutical Technology received RMB20,000,000 and RMB20,000,000 of registered capital from shareholders respectively.

As set forth in Note 1.2, the registered capital of DJ Medicines has been increased from RMB3,000,000 to RMB10,000,000 and was fully paid in cash by DJ Medical Instruments on February 27, 2017.

16 RESERVES

	Statutory surplus reserve
	RMB'000
At January 1, 2014	—
At December 31, 2014	—
At January 1, 2015	—
At December 31, 2015	—
At January 1, 2016	—
Transfer of reserves (a)	1,688
At December 31, 2016	1,688
At January 1, 2017	1,688
At June 30, 2017	1,688
(Unaudited)	
At January 1, 2016	—
At June 30, 2016	—

(a) Statutory surplus reserve

In accordance with the PRC regulations and the articles of association of the companies now comprising the Investment Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

Jiande Hospital registered as a limited liability company and for-profit general hospital on September 19, 2016, after which Jiande Hospital was subject to the statutory surplus reserve fund.

17 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances shown in the statements of financial position were, after appropriate offsetting, as follows:

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets:				
- Deferred income tax assets to be recovered after more than 12 months	—	—	—	—
- Deferred income tax assets to be recovered within 12 months	—	—	621	923
	—	—	621	923
Deferred income tax liabilities:				
- Deferred income tax liabilities to be settled after more than 12 months	—	—	(300)	(544)
- Deferred income tax liabilities to be settled within 12 months	—	—	(61)	(80)
	—	—	(361)	(624)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, was as follows:

Deferred income tax assets

	Provisions	Tax losses	Unrealized profit	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at January 1, 2014	—	—	—	—
Credited to profit or loss	—	—	—	—
Balance at December 31, 2014	—	—	—	—
Balance at January 1, 2015	—	—	—	—
Credited to profit or loss	—	—	—	—
Balance at December 31, 2015	—	—	—	—
Balance at January 1, 2016	—	—	—	—
Business combinations (Note 30)	—	463	—	463
Credited to profit or loss	217	(72)	13	158
Balance at December 31, 2016	217	391	13	621
Balance at January 1, 2017	217	391	13	621
Credited to profit or loss	104	208	(10)	302
Balance at June 30, 2017	321	599	3	923

Deferred income tax liabilities

	Intangible assets	Interest capitalization	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance at January 1, 2014	—	—	—
Credited to profit or loss	—	—	—
Balance at December 31, 2014	—	—	—
Balance at January 1, 2015	—	—	—
Credited to profit or loss	—	—	—
Balance at December 31, 2015	—	—	—
Balance at January 1, 2016	—	—	—
Business combinations (Note 30)	(275)	—	(275)
Credited to profit or loss	49	(135)	(86)
Balance at December 31, 2016	(226)	(135)	(361)
Balance at January 1, 2017	(226)	(135)	(361)
Credited to profit or loss	29	(292)	(263)
Balance at June 30, 2017	(197)	(427)	(624)

Deferred income tax asset is recognised for provision for impairment of trade receivables and unrealized profit within the Target Group to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Deferred income tax assets are recognized for temporary differences to the extent that the realisation of the related tax benefit through future taxable profit is probable.

The unrecognised deferred income tax assets of DJ Pharmaceutical Technology for the year ended December 31, 2014, 2015 and 2016 and six months ended June 30, 2017 was RMB2,000, RMB 51,000, RMB 67,000 and RMB23,000 in respect of losses amounting to RMB8,000, RMB204,000, RMB268,000 and RMB92,000 for the respective year/period that can be carried forward against future taxable income. The expiry dates of the tax losses amounting to RMB8,000, RMB204,000, RMB268,000, RMB92,000 for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 were December 31, 2019, 2020, 2021 and 2022, respectively.

As set forth in Note 1.2, Jiande Hospital was not required to pay the corporate income tax in relation to the retained earnings succeeded up to September 30, 2016. No tax losses of Jiande Hospital can be carried forward in respect of which deferred tax assets have not been accounted for.

18 BORROWINGS

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Short-term bank borrowings	57,500	92,000	42,600	49,600

For the Target Group's bank borrowings amounting to RMB30,000,000, RMB30,000,000, RMB25,000,000 and RMB 30,000,000 as at December 31, 2014, 2015 and 2016 and June 30, 2017, the borrowers were entitled to the incomes of Jiande Hosptial for any late payments.

Bank borrowing of the Target Group which guaranteed by related parties are shown below:

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Dajia Group Co., Ltd, the Controlling Shareholder and Mrs. Yang Huixue	30,000	30,000	25,000	30,000
Dajia Group Co., Ltd	5,000	—	—	—
	35,000	30,000	25,000	30,000

As at December 31, 2014, 2015 and 2016 and June 30, 2017, certain bank borrowings were secured by corporate guarantee from Dajia Group Co., Ltd. and personal guarantees from Mr.Hong, the Controlling Shareholder, and Mrs. Yang Huixue, the Controlling Shareholder's spouse.

The weighted average effective interest rates (per annum) at the balance sheet dates are set out as follows:

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	7.21%	6.28%	5.65%	5.28%

The fair values of the borrowings approximated their carrying amounts as at December 31, 2014, 2015 and 2016 and June 30, 2017. The carrying amounts of borrowings are denominated in RMB.

19 TRADE PAYABLES

An ageing analysis, based on invoice date, of trade payables as at the combined statements of financial position dates were as follows:

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 - 90 days	23,418	23,109	23,064	6,304
91 - 180 days	2,489	4,406	8,834	3,631
181 days - 1 year	452	324	1,836	2,052
Over 1 year	350	826	766	668
	26,709	28,665	34,500	12,655

The carrying amounts of trade payables are denominated in RMB. The carrying amounts approximate their fair values due to short-term maturities.

20 ACCRUALS AND OTHER PAYABLES

	As at December 31,			As at June 30,
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accrued employee benefits	2,503	3,184	4,186	2,338
Duty and tax payable other than corporate income tax	107	105	239	79
Other payables of medical allowance	2,384	2,275	2,371	2,055
Other payables to suppliers of plant and equipment	337	720	919	33,268
Advance from third parties	170	293	198	338
Others	308	294	306	223
Total accruals and other payables	5,809	6,871	8,219	38,301
Less: non-current portion	—	(300)	(210)	(210)
Current portion	5,809	6,571	8,009	38,091

The carrying amounts of accruals and other payables are denominated in RMB. The carrying amounts approximate their fair values due to their short-term maturities.

21 REVENUE

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
General hospital services	142,047	149,782	146,275	71,482	72,822
- Pharmaceutical sales	89,397	88,010	83,982	41,557	38,274
- Treatments and general healthcare services	52,650	61,772	62,293	29,925	34,548
Wholesale of pharmaceutical products	—	—	7,935	3,559	419
	142,047	149,782	154,210	75,041	73,241

All revenues are generated in the PRC. For its general hospital services, the Target Group has a highly diversified patient portfolio, no single patient or client contributed 1% or more of the Target Group's respective revenue during the year ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017. For its wholesale of pharmaceutical products, the top six, three and three customers contribute 90% or more of the Target Group's respective revenue during the year ended December 31, 2016 and the six months ended June 30, 2016 and 2017.

22 EXPENSES BY NATURE

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Advertising and marketing expenses	—	—	95	62	40
Amortisation and depreciation	3,309	3,693	3,772	1,916	2,170
Cost of inventories and consumables	94,461	94,518	100,395	48,834	34,329
Employee benefits expenses	34,066	37,060	40,069	18,802	19,509
Utilities, maintenance fee and office expenses	4,911	3,617	4,239	2,137	2,568
Provision for impairment of trade receivables	2,048	2,379	866	402	414
Travelling and entertainment expenses	466	426	721	474	477
Rental expenses	—	—	262	90	170
Other expenses	1,428	1,454	1,507	858	1,139
	140,689	143,147	151,926	73,575	60,816

23 OTHER (LOSSES)/GAINS — NET

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Medical compensation	(464)	(183)	(765)	(218)	(92)
Penalty	(31)	(155)	—	—	(10)
Insurance claims	300	42	54	54	92
Others	6	62	174	21	171
	(189)	(234)	(537)	(143)	161

24 OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Government grants and subsidies (a)	1,079	1,570	3,400	1,065	—
Others	127	140	137	101	123
	1,206	1,710	3,537	1,166	123

(a) The traditional Chinese medicine subsidies amounting to RMB1,004,000, RMB1,011,000 and RMB1,053,000 were granted by Finance Bureau of Jiande city in Hangzhou, the PRC for the years ended December 31, 2014, 2015 and 2016, in consideration of Jiande Hospital's contribution on Traditional Chinese Medicine development.

The public hospital subsidies amounting to RMB1,980,000 and RMB990,000 were granted by Health Bureau of Jiande city in Hangzhou, the PRC for the year ended December 31, 2016 and the six months ended June 30, 2016, in consideration of Jiande Hospital's historical contribution as public hospital.

There are no unfulfilled conditions or other contingencies attaching to these grants.

25 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Wages, salaries and bonuses	27,698	29,302	31,485	15,130	15,724
Contributions to pension plans	2,642	2,374	2,324	1,150	1,066
Other staff welfare expenses	3,726	5,384	6,260	2,522	2,719
	34,066	37,060	40,069	18,802	19,509

Employee benefit expenses were charged in the following categories in the combined statements of comprehensive income:

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cost of revenue	28,913	31,321	33,035	15,631	16,779
Administrative expense	5,153	5,739	7,034	3,171	2,730
	34,066	37,060	40,069	18,802	19,509

The employees of the Target Group in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Target Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of the Target Group with respect to the retirement benefits scheme is to make the specified contributions under scheme.

26 FINANCE INCOME

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Finance income					
Interest income on short-term bank deposit	113	156	81	50	62
	113	156	81	50	62
Finance expense					
Interest expense on bank borrowings	(3,280)	(4,081)	(3,934)	(2,566)	—
	(3,280)	(4,081)	(3,934)	(2,566)	—
Finance (expense)/income - net	(3,167)	(3,925)	(3,853)	(2,516)	62

27 INCOME TAX EXPENSE

Subsidiaries in Mainland China are subject to the PRC corporate income tax at the rate of 25% for the year ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017.

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current income taxation:					
- PRC corporate income tax	—	—	584	—	3,281
- Deferred income tax credit (Note 17)	—	—	(72)	84	(39)
	—	—	512	84	3,242

The taxation on the Target Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the PRC, the principal place of the Target Group's operations, as follows:

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
(Losses)/Profit before income tax	(792)	4,186	1,431	(27)	12,771
Calculated at a taxation rate of 25% (a)	(198)	1,047	358	(7)	3,193
Expenses not tax deductible	—	9	68	7	26
Loss/(Income) not subject to income tax (b)	196	(1,107)	19	53	—
Tax effect of unrecognized tax losses	2	51	67	31	23
Income tax expense	—	—	512	84	3,242

(a) PRC Corporate Income Tax ("CIT")

The income tax rate of Target Company and its subsidiaries was 25% for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017.

(b) As set forth in Note 1.2, Jiande Hospital was not required to pay the corporate income tax in relation to the retained earnings succeeded. After the Conversion to the for-profit hospital on September 19, 2016, Jiande Hospital has been subject to PRC corporate income tax with the income tax rate of 25%.

28 DIVIDEND

No dividend has been paid or declared by the Target Company or any of its subsidiaries for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017.

29 CASH GENERATED FROM OPERATIONS

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
(Loss)/Profit before income tax	(792)	4,186	1,431	(27)	12,771
Adjustments for:					
Finance income	(113)	(156)	(81)	(50)	(62)
Finance cost	3,280	4,081	3,934	2,566	—
Provision of bad debt	2,048	2,379	866	402	414
Amortisation of intangible assets	—	—	197	78	119
Depreciation of property, plant and equipment	3,309	3,693	3,575	1,838	2,051
Losses on disposal of property, plant and equipment	—	—	31	—	3
Changes in working capital:					
— Inventories	1,860	1,326	1,363	439	372
— Trade receivables	3,824	(5,922)	(5,161)	(4,515)	(3,473)
— Other receivables and prepayments	(101)	32	(5,246)	(81)	4,514
— Amounts due to related parties	5,961	5,755	6,410	3,147	10,523
— Trade payables	1,675	1,956	5,835	4,715	(21,845)
— Accruals and other payables	(539)	781	1,481	(1,322)	(2,597)
— Deferred revenue	—	150	(150)	(75)	—
Cash generated from operations	20,412	18,261	14,485	7,115	2,790

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cash and cash equivalents	8,613	6,145	13,031	19,969	26,882
Borrowings-repayable within one year	(64,700)	(99,200)	(59,050)	(117,150)	(75,350)
New debt	(56,087)	(93,055)	(46,019)	(97,181)	(48,468)
Cash	8,613	6,145	13,031	19,969	26,882
Gross debt-interest free rates	(7,200)	(7,200)	(16,450)	(27,550)	(25,750)
Gross debt-fixed interest rates	(57,500)	(92,000)	(42,600)	(89,600)	(49,600)
New debt	(56,087)	(93,055)	(46,019)	(97,181)	(48,468)

	Cash	Bank Borrowings due within 1 year	Amount due from related parties due within 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net debt as at January 1, 2014	*10,559*	*(38,000)*	*—*	*(27,441)*
Cash flows	(1,946)	(19,500)	(7,200)	(28,646)
Net debt as at December 31, 2014	8,613	(57,500)	(7,200)	(56,087)
Cash flows	(2,468)	(34,500)	—	(36,968)
Net debt as at December 31, 2015	6,145	(92,000)	(7,200)	(93,055)
Cash flows	6,886	49,400	(9,250)	47,036
Net debt as at December 31, 2016	13,031	(42,600)	(16,450)	(46,019)
Cash flows	13,851	(7,000)	(9,300)	(2,449)
Net debt as at June 30, 2017	26,882	(49,600)	(25,750)	(48,468)
(Unaudited) Cash flows	13,824	2,400	(20,350)	(4,126)
Net debt as at June 30, 2016 (Unaudited)	19,969	(89,600)	(27,550)	(97,181)

30 BUSINESS COMBINATIONS

On March 1, 2016, DJ Medical Instruments, a then wholly owned subsidiary of Xinxiangli Investment, which is ultimate controlled by Mr. Hong, acquired the entire equity interests in DJ Medicines from another three independent third party individuals with a consideration of RMB3,000,000, and thereafter obtained the control of DJ Medicines, a wholesale of pharmaceutical products services provider operating in the PRC.

As a result of the acquisition, the Target Group is expected to increase its vertical integration in healthcare industry. The goodwill of RMB1,712,000 arising from the acquisition is attributable to DJ Medicines' procurement advantages and possible profitability in wholesale of pharmaceutical products in the future. None of the goodwill recognised is expected to be deductible for income tax purpose.

The following table summarises the consideration paid for DJ Medicines, the fair value of assets acquired, liabilities assumed at the acquisition date.

	RMB'000
Consideration	
At March 1, 2016	
- Cash paid by DJ Medical Instruments	3,000
Total consideration	3,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash	1
Medical license (included in intangible assets) (Note 8)	1,100
Deferred income tax assets (Note 17)	463
Other receivables and prepayments	1
Accruals and other payables	(2)
Deferred income tax liabilities (Note 17)	(275)
Total net identifiable assets	1,288
Goodwill (Note 8)	1,712
	3,000

The revenue and net profit included in the combined income statement for the period from March 1, 2016 to December 31, 2016 contributed by DJ Medicines was RMB7,935,000 and RMB2,000.

If DJ Medicines has been controlled from January 1, 2016, the revenue and net loss contributed by DJ Medicines would be RMB8,763,000 and RMB100,000.

31 COMMITMENTS

Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Property, plant and equipment	1,088	36,337	20,300	27,450	9,830
Land use rights	—	8,984	—	—	—
	1,088	45,321	20,300	27,450	9,830

32 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. As a result, Jiande Hospital is considered to be related as the Target Group has participated internal governance body of the hospital. Other parties are also considered to be related if they are subject to common control, common significant influence or joint control. Controlling shareholder, members of key management and their close family members of the Target Group are also considered as related parties.

The directors are of the view that the following parties that had transactions or balances with the Target Group are related parties:

Name	**Relationship with the Target Group**
DJ Medical Instruments	Controlled by Controlling Shareholder
Dajia Group Co., Ltd.	Controlled by Controlling Shareholder
Xinxiangli Investment	Controlled by Controlling Shareholder

(a) *Transactions with related parties*

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Purchases of goods — DJ Medical Instruments	5,961	5,755	6,410	3,147	10,523

(b) *Balances with related parties*

Balance with related parties as at December 31, 2014, 2015 and 2016 and June 30, 2017 were disclosed in Note 13.

(c) *Key management compensation*

Key management includes directors and senior managements. The compensation paid or payable to key management for employee services was shown below:

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Wages, salaries and bonuses	638	726	1,023	387	302
Employer's contribution to pension scheme	50	69	79	37	28
Others	49	46	88	27	14
	737	841	1,190	451	344

33 CONTINGENCIES

The Target Group had no material contingent liabilities outstanding as at December 31, 2014, 2015 and 2016 and June 30, 2017.

34 BENEFITS AND INTERESTS OF DIRECTORS

(a) *Director's emoluments*

The remuneration of directors of Jiande Hospital, DJ Medicines and DJ Pharmaceutical Technology for the years ended December 31, 2014, 2015, 2016, the six months ended June 30, 2016 and 2017 were set out below:

	Year ended December 31,			**Six months ended June 30,**	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Fees	—	—	—	—	—
Salaries	342	245	414	123	49
Discretionary bonuses	—	—	21	7	—
Employer's contribution to pension scheme	25	24	32	14	2
Estimated money value of other benefits	26	20	60	17	4
	393	289	527	161	55

No directors waived or agreed to waive any emoluments during the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017. No emoluments were paid to directors as an inducement to join or upon joining the Target Group or as compensation for loss of office during the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017.

(b) *Directors' material interests in transactions, arrangements or contracts*

No significant transactions, arrangements and contracts in relation to the Target Group's business to which Jiande Hexu was a party and in which a director of Jiande Hexu had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017.

35 EVENTS AFTER THE BALANCE SHEET DATE

Other than the subsequent agreement on the conversion of the land use right on allotted land disclosed in Note 7, the events after the balance sheet day are disclosed as follows:

Dividend distribution

Pursuant to the resolution of the then shareholder committee of Jiande Hospital dated July 31, 2017, Jiande Hospital declared dividends of RMB7,628,000 and RMB3,269,000 to Xinxiangli Investment and Mr. Hong respectively, the then shareholders of Jiande Hospital as at December 31, 2016.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to June 30, 2017 and up to the date of this report. Other than disclosed in this report, no dividend or distribution has been declared or made by the Target Company or any of its subsidiaries in respect of any period subsequent to June 30, 2017.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at June 30, 2017 (the "**Unaudited Pro Forma Financial Information**") which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the acquisition of the 100% equity interest in Jiande Hexu, together with its subsidiaries (the "**Target Group**") (the "**Acquisition**"), as if the Acquisition had been taken place on June 30, 2017. This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at June 30, 2017 or at any future date.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

		Unaudited pro forma adjustments						
	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2017	**Audited combined statement of assets and liabilities of Jiande Hexu as at 30 June 2017**	**Other pro forma adjustments**					**Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
ASSETS								
Non-current assets								
Property, plant and equipment	21,438	109,862	—	—	—	—	11,073	142,373
Land use rights	—	17,119	12,419	—	—	—	10,411	39,949
Intangible assets	1,080,325	2,514	—	—	—	—	490,893	1,573,732
Other receivables and prepayments	548	157	—	—	—	—	—	705
Deferred income tax assets	244	923	—	—	—	—	—	1,167
Total non-current assets	1,102,555	130,575	12,419	—	—	—	512,377	1,757,926

		Unaudited pro forma adjustments						
	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2017	**Audited combined statement of assets and liabilities of Jiande Hexu as at 30 June 2017**	**Other pro forma adjustments**					**Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
Current assets								
Available-for-sale financial asset	80,933	—	—	—	—	—	—	80,933
Financial assets at fair value through profit or loss	—	—	—	—	—	—	13,400	13,400
Inventories	1,485	10,117	—	—	—	—	—	11,602
Trade receivables	5,172	27,653	—	—	—	—	—	32,825
Other receivables, deposits and prepayments	708	1,479	—	—	120,000	—	(120,000)	2,187
Amounts due from related parties	41,778	63,690	—	—	—	—	—	105,468
Cash and cash equivalents	456,556	26,882	(12,419)	(10,897)	(120,000)	241,500	(363,000)	218,622
Structured deposit	30,000	—	—	—	—	—	—	30,000
Total current assets	616,632	129,821	(12,419)	(10,897)	—	241,500	(469,600)	495,037
Total assets	1,719,187	260,396	—	(10,897)	—	241,500	42,777	2,252,963

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2017	Audited combined statement of assets and liabilities of Jiande Hexu as at 30 June 2017	Unaudited pro forma adjustments					Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2017
			Other pro forma adjustments					
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
LIABILITIES								
Non-current liabilities								
Borrowing	—	—	—	—	—	217,350	—	217,350
Deferred income tax liabilities	37,375	624	—	—	—	—	50,024	88,023
Accruals and other payables	2,866	210	—	—	—	—	—	3,076
Total non-current liabilities	40,241	834	—	—	—	217,350	50,024	308,449
Current liabilities								
Borrowing	—	49,600	—	—	—	24,150	—	73,750
Trade payables	3,622	12,655	—	—	—	—	—	16,277
Accruals and other payables	100,191	38,091	—	—	—	—	—	138,282
Amounts due to related parties	4,697	70,885	—	—	—	—	—	75,582
Current income tax liabilities	5,462	3,498	—	—	—	—	—	8,960
Total current liabilities	113,972	174,729	—	—	—	24,150	—	312,851
Total liabilities	154,213	175,563	—	—	—	241,500	50,024	621,300
Net assets/ (liabilities)	1,564,974	84,833	—	(10,897)	—	—	(7,247)	1,631,663

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The balances are extracted from the reviewed consolidated balance sheet of the Group as at June 30, 2017 as set out in the Company's published interim report for the six months ended June 30, 2017.

2. The balances are extracted from the audited combined balance sheet of the Target Group as at June 30, 2017 as set out in the accountant's report of Jiande Hexu in Appendix II to this circular.

3. The land use right owned by Jiande Hospital was on allocated lands and the book value of this land use right was zero as at June 30, 2017.

   Pursuant to an agreement entered into between Jiande Hospital and Land and Resources Bureau of Jiande City in Hangzhou, the PRC on August 15, 2017, the allocated land use right owned by Jiande Hospital will be converted into granted land use right with a consideration of RMB12,419,000. As the date of this report, the consideration has been paid to the fiscal special account of Finance Bureau of Jiande City in Hangzhou. The pro forma adjustment represents the conversion consideration of land use right.

4. Pursuant to the resolution of the then shareholder committee of Jiande Hospital dated July 31, 2017, Jiande Hospital declared dividends of RMB7,628,000 and RMB3,269,000 to Xinxiangli Investment and Mr. Hong respectively, the then shareholders of Jiande Hospital as at December 31, 2016.

5. Pursuant to a letter of intent in relation to this Acquisition, the Company, through one of its subsidiaries, deposited RMB120,000,000, being a refundable deposit (the "Deposit"), into an escrow account on August 30, 2017. The Deposit shall refund to the Company in certain time after the signing of the sale purchase agreement.

6. Pursuant to the Facility Agreement, a term loan amounting to HK$285,280,000 was granted to the Company for the Acquisition. In accordance with the Facility Agreement, the first loan repayment will be made within one year after loan drawing. As of the date of this report, the loan has not been received by the Company.

7. Upon the completion of the Acquisition, the Company indirectly held 100% of equity interest in Jiande Hexu through its wholly owned subsidiary, New Pride Holdings Limited ("New Pride"), and Jiande Hexu will become a subsidiary of the Company. Through Jiande Hexu, the Company will indirectly hold 70% of equity interest in each of Jiande Hospital, DJ Pharmaceutical Technology and DJ Medicines and the remaining 30% of equity interest in each of Jiande Hospital, DJ Pharmaceutical Technology and DJ Medicines (the "**Remaining Interest**") shall be recognized as non-controlling interests. The identifiable assets and liabilities of the Target Group will be accounted for in the Enlarged Group at their fair values using the acquisition accounting method in accordance with International Financial Reporting Standard 3 (Revised) "Business Combinations" issued by the International Accounting Standards Board.

The adjustments represent the fair value adjustments to the identifiable assets and liabilities and goodwill recognized from the Acquisition of approximately RMB313,993,000 being the excess of the consideration transferred over the fair value of the identifiable net assets acquired.

		RMB'000
Consideration		
Cash	(a)	483,000
Contingent consideration	(b)	(11,000)
Call option to acquire the Remaining Interest	(c)	(2,400)
Total Consideration transferred for acquiring the business of the Target Group		469,600
Fair value of identifiable assets and liabilities		
Carrying amount of net assets of the Target Group as at June 30 2017		84,833
Less: carrying amount of goodwill as at June 30 2017	(d)	(1,712)
Dividends declared to the then shareholders (Note 4)		(10,897)
Carrying amount of net identifiable assets of the Target Group as at June 30 2017		72,224
Valuation adjustments on identifiable assets and liabilities	(e)	
- Land use right		10,411
- Buildings and leasing improvements		11,073
- Hospital licenses		178,300
- GSP licenses		312
Deferred income tax liabilities		(50,024)
Total net identifiable assets		222,296
Non-controlling interest		66,689
Goodwill to be recognized from the Acquisition		313,993

(a) In accordance with the Sale Purchase Agreement entered into between New Pride, Mr. Hong Jiangxin, Mr. Hong Yang and Jiande Hexu on October 27, 2017, the total consideration of the Acquisition is RMB483,000,000. The Company intends to satisfy the consideration by internal resources amounting to RMB241,500,000 and the rest will be satisfied by bank loans.

(b) Pursuant to the Sale Purchase Agreement, Mr. Hong Jiangxin and Mr. Hong Yang have guaranteed to New Pride that the adjusted net profit (being the audited net profit after deduction of tax and non-recurring profit or loss) of Jiande Hospital and DJ Medicines, on a combined basis, for the year ending December 31, 2017 (the "2017 Net Profit") will be no less than RMB28,000,000. The profit guarantee shall be deemed having been fulfilled if the 2017 Net Profit is not less than RMB26,000,000. In the event that the 2017 Net Profit is less than RMB26,000,000, Mr. Hong Jiangxin and Mr. Hong Yang shall compensate the Company a sum in accordance with an agreed formula.

The profit guarantee is recognized as a contingent consideration. The Directors of the Company have determined the fair values of the contingent consideration is RMB11,000,000 as at June 30, 2017 with reference to a valuation report issued by an independent valuer.

(c) Pursuant to the Sale Purchase Agreement, Zhejiang Xinxiangli Investment Co., Ltd. granted to New Pride a call option to acquire the Remaining Interest at a consideration calculated in accordance with an agreed formula. New Pride may exercise the call option at any time during the period commencing from the date of the completion of the Acquisition and ending on December 31, 2020, to the extent that the call option and the acquisition of the Remaining Interest are permissible under the then applicable policies, laws and regulations in the PRC and the Listing Rules, and subject to the availability of finance to fund the exercise of Call Option.

The Directors of the Company have determined the fair values of the call option is RMB2,400,000 as at June 30, 2017 with reference to a valuation report issued by an independent valuer.

(d) The carrying amount of goodwill as at June 30, 2017 represents the goodwill in relation to the acquisition of DJ Medicines in March, 2016, which is not an identifiable assets of the Target Group.

(e) The Directors of the Company have determined the fair values of the identifiable assets and liabilities of the Target Group as at June 30, 2017 with reference to a valuation report issued by an independent valuer. The valuation adjustments on identifiable assets and liabilities are calculated by minus carrying amount of identifiable assets and liabilities from the fair value of identifiable assets and liabilities.

(f) The breakdown of the intangible assets adjusted to the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2017 are listed as below:

	RMB'000
Hospital licenses	178,300
GSP licenses	312
Goodwill to be recognized from the Acquisition	313,993
Less: carrying amount of goodwill of the Target Group as at June 30 2017	(1,712)
	490,893

(g) For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, fair values of the identifiable assets and liabilities of the Target Group as at June 30, 2017 were used to determine the goodwill arising from the Acquisition. Upon completion of the Acquisition, the fair values of the contingent consideration, call option to acquire the Remaining Interest and net identifiable assets of the Target Group as at the date of completion will be used to determine the actual amount of the goodwill arising from the Acquisition. Such difference between the actual amount and the valuation as at June 30, 2017 may be significant.

(h) As of the date of this circular, the Directors of the Company have not completed the allocation of goodwill to be recognized from the Acquisition nor performed any impairment assessment of the goodwill. The Directors of the Company will adopt the consistent accounting policies as principle assumptions to assess the goodwill in the future.

8. This Unaudited Pro Forma Financial Information has not taken into account a subsequent disposal of the 80% equity interest in Shanghai Fuhua Hospital Co., Ltd., which is indirectly held by the Company through its subsidiary, Shanghai Weikang Investment Management Co., Ltd., at a consideration of RMB43,000,000 which was completed on August 29, 2017. Subsequent to the disposal, Shanghai Fuhua Hospital Co., Ltd. ceased to be a subsidiary of the Company.

9. No adjustment has been made to the Unaudited Pro Forma Financial Information of the Enlarged Group to reflect any trading results or other transaction of the Group and the Target Group entered subsequent to June 30, 2017.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Hospital Corporation of China Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hospital Corporation of China Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), and Jiande Hexu Enterprise Management Co., Ltd. and its subsidiaries (the "**Target Group**") (collectively the "**Enlarged Group**") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at June 30, 2017, and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages III 1 to III 7 of the Company's circular dated December 15, 2017, in connection with the proposed acquisition of the Target Group (the "**Acquisition**") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages III 1.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Acquisition on the Group's financial position as at June 30, 2017 as if the Acquisition had taken place at June 30, 2017. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the period ended June 30, 2017, on which a review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

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Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at June 30, 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, December 15, 2017

Set out below is the management discussion and analysis of the Target Group for the year ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 ("**period under review**"), which should be read in conjunction with the accountant's report of the Target Group set out in Appendix II of this circular.

REVIEW OF FINANCIAL RESULTS AND BUSINESS PERFORMANCE

The Target Company was incorporated on September 19, 2017 under the laws of the PRC for investment holding purposes and is the holding company of the Target Group. As of the Latest Practicable Date, the Target Company holds 100% equity interest in the Holdco, which in turn holds 70% equity interest in each of the Hospital, DJ Medicines and DJ Pharmaceuticals. The financial results, assets and liabilities of the Target Group Companies are prepared on a combined basis and please refer to Appendix II for the full text of the combined financial information of the Target Group. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company. The Target Group is principally engaged in (i) operation and management of its privately owned hospital, the Hospital and (ii) wholesale of pharmaceutical products in the PRC through DJ Medicines.

The Target Group conducts its business operations through its indirect non-wholly-owned subsidiaries, the Hospital, DJ Medicines and DJ Pharmaceutical Technology. The Hospital is a for-profit TCM general hospital in Zhejiang, which has a capacity of 450 beds, and it features the use of TCM and provides comprehensive medical services. The Hospital is a Class II hospital with 40 medical departments and over 80 medical practitioners. DJ Medicines is principally engaged in the supply of pharmaceutical products. DJ Pharmaceutical Technology owns the property which houses the operations of the Hospital.

Revenue

The following table sets forth a breakdown of the Target Group's revenue during the period under review:

	Year ended December 31			Six months ended June 30	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB '000	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*
				(unaudited)	
General hospital services	142,047	149,782	146,275	71,482	72,822
Pharmaceutical sales	89,397	88,010	83,982	41,557	38,274
Treatment and general hospital services	52,650	61,772	62,293	29,925	34,548
Wholesale of pharmaceutical products	—	—	7,935	3,559	419
Total	142,047	149,782	154,210	75,041	73,241

The revenue of the Target Group increased from RMB142.0 million for the year ended December 31, 2014, to RMB149.8 million for the year ended December 31, 2015, and further increased to RMB154.2 million for the year ended December 31, 2016. The Target Group recorded a drop in revenue from RMB75.0 million for the six months ended June 30, 2016 to RMB73.2 million for the same period of 2017. These increase in revenue during the three years ended December 31, 2016 was attributable to the (i) growth in treatment and general hospital services, (ii) the gradual decrease in revenue from pharmaceutical sales due to government policy; and (iii) the acquisition of DJ Medicines in 2016, which engages in wholesale of pharmaceutical products. In March 2016, Zhejiang Dajia Medical Instruments Co., Ltd.* (浙江大佳醫療器械有限公司) ("**DJ Medical Instruments**") acquired DJ Medicines. DJ Medical Instruments was a wholly-owned subsidiary of the Hospital. Subsequent to the restructuring of the holding structure of the Target Group for the purpose of the Acquisition, which was completed before the entering into of the Sale Purchase Agreement, DJ Medical Instruments was no longer a member of the Target Group (the "**Reorganization**"). The decrease in revenue in first half of 2017 as DJ Medicines channelled its resources on exploring business opportunities with third-party customers to support the pharmaceutical needs and procurement function of the Hospital to ensure a smooth integration and promote operational efficiency.

General hospital services

(a) *Pharmaceutical sales*

The revenue generated from pharmaceutical sales gradually decreased during the period under review, mainly due to the government policy under the reform of the Chinese healthcare system which prohibits medical institutions from generating more than a certain percent of their revenue from sales of prescribed pharmaceutical products. In addition, the Hospital has been closely monitoring its prescription of pharmaceutical products to satisfy the policy requirements and to achieve the Hospital's operational objective of attaining a higher proportion of revenue from treatment and general hospital services.

(b) *Treatment and general hospital services*

The revenue generated from treatment and general hospital services was increased by RMB9.1 million from RMB52.7 million for the year ended December 31, 2014 to RMB61.8 million for the year ended December 31, 2015, which was in line with the increase of number of patient visits (2014: 265,700, 2015: 283,695) and an increase in average revenue per visit (2014: RMB198.2, 2015: RMB217.7). The revenue from treatment and general hospital services was further increased by RMB0.5 million to RMB62.3 million for the year ended December 31, 2016, which was due to an increase in average revenue per visit (2015: RMB217.7, 2016: RMB229.5) and offset by a drop in number of patient visits by 12,245 (2015: 283,695, 2016: 271,450). The revenue from treatment and general hospital services was increased by 15% from RMB29.9 million for the six months ended June 30, 2016 to RMB34.5 million for the same period of 2017, due to the 3.0% increase of patient visits (1H2016: 129,895, 1H2017: 132,832) and the 12.1% increase in average revenue per visit (1H2016: RMB230.4, 1H2017: RMB258.2).

Wholesale of pharmaceutical products

The revenue of DJ Medicines has been combined with the Target Group Companies since March 2016. The revenue generated from the wholesale of pharmaceutical products through DJ Medicines declined by RMB3.2 million from RMB3.6 million for the six months ended June 30, 2016 to RMB0.4 million for the same period of 2017 due to the focus on providing pharmaceutical products to the Hospital instead of third-party customers. The acquisition of DJ Medicines was primarily to serve the purpose of supplying pharmaceutical products to the Hospital and providing support to the procurement channels, commercial negotiation and purchase order management of the Hospital. Following the acquisition of DJ Medicines and in order to promote the synergies among DJ Medicines and the Hospital, DJ Medicines concentrates its resources on supporting the pharmaceutical needs and procurement channel of the Hospital leading to a decrease in revenue generated from the wholesale of pharmaceutical products to third-party customers in the first half of 2017. Contributed by the post-acquisition integration efforts, DJ Medicines expects gradual recovery on the wholesale of pharmaceutical products to third-party customers.

Gross Profit

The gross profit was RMB11.5 million, RMB17.6 million and RMB13.7 million and the gross profit margin were 8.1%, 11.8% and 8.9% for years ended December 31, 2014, 2015 and 2016, respectively. The gross profit for the years ended December 31, 2014, 2015 and 2016 remained relatively stable because the increase in the cost of revenue was in line with the growth in revenue.

The gross profit was RMB6.8 million and RMB17.5 million, and the gross profit margin was 9.0% and 23.8% for the six months ended June 30, 2016 and 2017, respectively. The significant increase in gross profit margin in 2017 was mainly due to the decrease in cost of inventories and consumables attributable to the lower cost of pharmaceutical products offered by DJ Medicines and the supports provided by DJ Medicines in the procurement channel.

Other income

Other income for the years ended December 31, 2014, 2015 and 2016 were RMB1.2 million, RMB1.7 million and RMB3.5 million, respectively, which primarily consist of government grants and subsidies granted by the Bureau of Sanitary of Jiande City in Hangzhou and the Finance Bureau of Jiande City in Hangzhou to the Hospital. Other income decreased from RMB1.2 million for the six months ended June 30, 2016 to RMB0.1 million for the same period of 2017, as the government grants and subsidies cease to be available to the Hospital when it converted from a non-public not-for-profit general hospital to a for-profit general hospital in September 2016.

Expenses

Administrative Expenses

The administrative expenses for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 were RMB10.2 million, RMB11.0 million, RMB11.3 million and RMB5.0 million, respectively, and the ratio of the administrative expenses to revenue was 7.1%, 7.4%, 7.3% and 6.8%, respectively. The administrative expenses primarily consist of (i) employee benefit expenses, (ii) provision for impairment of trade receivables, (iii) utilities, maintenance fee and office expenses; (iv) travelling and entertainment expenses, (v) depreciation and amortization; and (vi) other expenses.

Finance expenses

The Target Group incurred finance expenses of RMB3.3 million, RMB4.1 million and RMB3.9 million for the years ended December 31, 2014, 2015 and 2016, and RMB2.6 million and zero for the six months ended June 30, 2016 and 2017, respectively. The increase in finance expenses in years ended December 31, 2015 and 2016 was attributable to an increase in short-term bank borrowing in 2015 and first half of 2016 (December 31, 2014: RMB57.5 million, December 31, 2015: RMB92.0 million, December 31, 2016: RMB42.6 million) to fund the Hospital's operations and construction of the new hospital building. Finance expense for the six months ended June 30, 2017 was zero due to the capitalization of the relevant finance expenses given the purpose of the corresponding borrowing.

Income tax expenses

For the years ended December 31, 2014 and 2015, the income tax expenses of the Target Group was zero. The Target Group recorded income tax expenses of RMB0.5 million for the year ended December 31, 2016. The Target Group recorded tax expenses of RMB0.1 million for the six months ended June 30, 2016 and recorded income tax expenses of RMB3.2 million for the same period of 2017. The Hospital became a for-profit general hospital since September 2016 and Mr. Hong Jiangxin, through DJ Medical Instruments, acquired DJ Medicines in March 2016, hence the net profit generated by both entities were subject to income tax onwards and the Target Group recorded income tax expenses in 2016 and 2017. In addition, the net income for the six months ended June 2017 increased dramatically due to the significant drop in the cost of inventories and consumables under the cost of revenue.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Target Group mainly finance its operations and capital expenditure by cash generated from its operations and borrowings.

Borrowings

The total amount of borrowing (including bank loans and amounts due to related parties) of the Target Group as of December 31, 2014, 2015 and 2016 and June 30, 2017, was RMB64.7 million, RMB99.2 million, RMB59.1 million and RMB75.4 million, respectively. The breakdown of the borrowings of the Target Group is as follows:

	As of December 31			As of June 30
	2014	**2015**	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Current Borrowings				
Bank loans	57,500	92,000	42,600	49,600
Amounts due to related parties	7,200	7,200	16,450	25,750
Total	64,700	99,200	59,050	75,350

All borrowings of the Target Group are short-term borrowings. The amount due to related parties are unsecured, interest-free, repayable on demand and are denominated in RMB. The bank loans are denominated in RMB. As one of the Conditions, the Vendors and Xinxiangli Investment shall grant an interest-free loan (the "**One-year Loan**") to the Hospital for the purpose of repaying all of its outstanding interest-bearing loans (and accrued interests thereon) on or before the Completion. The principal amount of the One-year Loan is RMB25 million and due on December 31, 2018. The Company intends to repay the One-year Loan by future cash flows to be generated from its business operation.

The amounts due to related parties increased in 2017 to fund and facilitate the construction of the new hospital building. As of September 30, 2017, all bank loans have been settled. Please refer to note 13 to the accountant's report of the Target Group set out in Appendix II for the breakdown of the amounts due to related parties, these related parties are companies controlled by Mr. Hong Jiangxin. Amounts due to related parties were incurred mainly for the purpose of funding the construction of the new hospital building. As one of the Conditions, the Target Group Companies shall settle the outstanding debt and payables (including the amounts due to related parties) save as agreed otherwise pursuant to mutual agreement between the Vendors and the Purchaser to be reached upon Completion.

Cash and cash equivalents, current assets and non-current assets

As of June 30, 2017, the Target Group had cash and cash equivalents of RMB26.9 million, of which are denominated in RMB. As of June 30, 2017, the Target Group had current assets of RMB129.8 million and net current liability of RMB44.9 million that is attributable to the borrowings of RMB75.4 million.

As of June 30, 2017, the Target Group had non-current assets of RMB130.6 million, mainly includes (i) plant, property and equipment that comprised of the new hospital building in construction amounted to RMB75.2 million and medical equipment of RMB17.4 million; (ii) land use rights of RMB17.1 million; and (iii) intangible assets of RMB2.5 million mainly representing goodwill of RMB1.7 million and the Good Supply Practice licenses of RMB0.8 million recognized upon the acquisition of DJ Medicines in March 2016.

Gearing ratio

The total equity of the Target Group as of December 31, 2014, 2015 and 2016 and June 30, 2017 was RMB40.2 million, RMB64.4 million, RMB68.3 million and RMB84.8 million. Gearing ratio of the Target Group, which was calculated as total borrowings (summation of bank loans and amounts due to related parties) divided by total equity, was 161%, 154%, 86% and 89% as of December 31, 2014, 2015 and 2016 and June 30, 2017.

FUTURE PROSPECTS

The construction of a new hospital building to expand the operations of the Hospital has completed and was put into use in August 2017, which has a capacity of 200 beds and is equipped with 30 new haemodialysis machine. The Target Group shall be able to expand its market share and revenue in the PRC by utilizing the Group's existing established network in the PRC. Business synergy would also be achieved by the Company after the Acquisition as explained in the section headed "E. Reasons for and Benefits of the Transactions" in the "Letter of the Board" in this circular. Save as disclosed, there are no committed material investment, capital assets and expected source of funding.

MATERIAL ACQUISITIONS AND DISPOSALS

DJ Medical Instruments, a wholly-owned subsidiary of the Hospital prior to the Reorganization, acquired the entire equity interests in DJ Medicines with a consideration of RMB3 million in March 2016. Save as disclosed, the Target Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the period under review (the "**DJ Medicines Acquisition**").

As part of the Reorganization, on August 29, 2017, the Hospital disposed the entire equity interests in DJ Medical Instruments to Xinxiangli Investment for a consideration of RMB20,000,000. The consideration has been fully settled on September 29, 2017.

EMPLOYEES

The Target Group had 265, 268 and 297 employees in the PRC as of December 31, 2014, 2015 and 2016, respectively. The total amount of remuneration for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 were RMB34.1 million, RMB37.1 million, RMB40.1 million and RMB19.5, respectively, which mainly include wages, salaries, bonuses, contributions to pension plans and other staff welfare expenses.

The Target Group remunerated their employees by reference to their qualification, experience, responsibilities and current market conditions. Employees of the Target Group are members of a state-managed retirement benefits scheme operated by the government in the PRC. The Target Group's employee benefits and remuneration policy are in line with prevailing market practice, and salary increments are assessed based on the performance of individual staff. As required by regulations in the PRC, the Target Group participates in various employee social security plans that are organized by municipal and provincial governments, including housing, pension, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance.

CHARGES ON ASSETS

During the period under review, the Target Group did not have any charge over its assets.

FOREIGN EXCHANGE RISK

The Target Group mainly operates in the PRC and all of the borrowings, cash and cash equivalents and expenses are also denominated in RMB. As a result, the Target Group is not exposed to material foreign exchange risk. There is no financial arrangement for hedging purpose in respect of the Target Group during the period under review.

SIGNIFICANT INVESTMENTS

Except for the DJ Medicines Acquisition as disclosed in the above section headed "Material Acquisitions and Disposals", there were no material investments made or held by the Target Group during the period under review.

CONTINGENT LIABILITIES

As of December 31, 2014, 2015 and 2016 and June 30, 2017, the Target Group had no contingent liability.

DUFF & PHELPS

October 27, 2017

The Directors
Hospital Corporation of China Limited
1602, Tower B, Jin Qiu International Building,
No.6, Zhichun Road, Haidian District,
Beijing, China, 100088

Our Ref.: 81693

Dear Sirs,

VALUATION REPORT ON MARKET VALUE OF 70% EQUITY INTEREST IN JIANDE HOSPITAL OF TRADITIONAL CHINESE MEDICINE CO., LTD., ZHEJIANG DAJIA MEDICINES CO., LTD., AND JIANDE DAJIA CHINESE MEDICINES PHARMACEUTICAL TECHNOLOGY CO., LTD. ON A COMBINED BASIS

Pursuant to the terms, conditions and purpose of an engagement agreement dated August 18, 2017 (“Engagement Agreement”) between Hospital Corporation of China Limited (“Company” or “Client”) and D&P China (HK) Limited (“Duff & Phelps China”), we have performed an analysis of market value (“Valuation”) of 70% equity interest in Jiande Hospital of Traditional Chinese Medicine Co., Ltd. (“The Hospital”), Zhejiang Dajia Medicines Co., Ltd. (“DJ Medicines”), and Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. (“DJ Pharmaceutical Technology”) (together “Subject Companies”) on a controlling and combined basis as of June 30, 2017 (“Valuation Date”). We understand that the Company contemplates the acquisition of the above mentioned interest and the Valuation is prepared based on the underlying assumptions and information provided by the management of the Company, The Hospital, DJ Medicines and DJ Pharmaceutical Technology (together “Management”).

We understand that this letter will be adopted by the Company for public disclosure purpose in compliance with the Rules Governing the Listing of Securities on Stock Exchange (“Listing Rules”) of The Stock Exchange of Hong Kong Limited (“Stock Exchange”). No third party shall have the right of reliance on this letter and neither receipt nor possession of this letter by any third party shall create any express or implied third-party beneficiary rights.

This letter identifies the asset appraised, describes the scope of work, states the basis of value, specifies key inputs and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. In preparing this letter, we aim to largely comply with the reporting standards recommended by the International Valuation Standards (“IVS”). The depth of discussion contained in this letter is specific to the needs of the Client and for the intended use as stated below. Supporting documentation concerning these matters has been retained in our work papers.

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PURPOSE OF VALUATION

The Client intends to acquire 70% equity interest in The Hospital, DJ Medicines and DJ Pharmaceutical Technology on a combined basis. With the Client's approval and as stipulated by the Engagement Agreement in formulating our opinion on the market value of equity interest in The Hospital, DJ Medicines and DJ Pharmaceutical Technology on a combined basis, we relied upon completeness and accuracy of operational, and financial information provided by the Management. To the extent that any of these assumptions or facts changed, the result of our market value conclusion should be different.

The intended use of the Valuation is to serve as the basis for compliance with the Listing Rules. The ultimate transaction, if happens, and the corresponding acquisition prices would be the results of negotiations between the transacting parties. The responsibility for determining the agreed acquisition price of the Subject Companies rests solely with the Company. The results of our analysis should not be construed to be a fairness opinion, a solvency opinion, or an investment recommendation. It is inappropriate to use our valuation report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of the financial projections and underlying assumptions.

STANDARD AND BASIS OF VALUE

The Valuation was prepared on the basis of market value. Market value is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Business enterprise value is defined for this appraisal as the total invested capital, that is, equivalent to the combination of all interest-bearing debts, shareholders' loans and shareholders' equity. Alternatively, the business enterprise value is equivalent to the combination of all tangible assets (buildings, machinery and equipment), long-term investment, net operating working capital and intangible assets of a continuing business. Equity interest is equivalent to business enterprise value less interest-bearing debts.

DESCRIPTION OF THE HOSPITAL, DJ MEDICINES AND DJ PHARMACEUTICAL TECHNOLOGY

The Hospital is a for-profit general hospital in Jiande, Hangzhou City, Zhejiang Province. Founded in 2003, The Hospital provides comprehensive outpatient and inpatient medical services to residents in Jiande, and features the use of traditional Chinese medicines. The Hospital is a Grade II general hospital with 250 registered beds as of June 30, 2017. It opened a new medical building in August 2017 and increased total number of registered beds to 450.

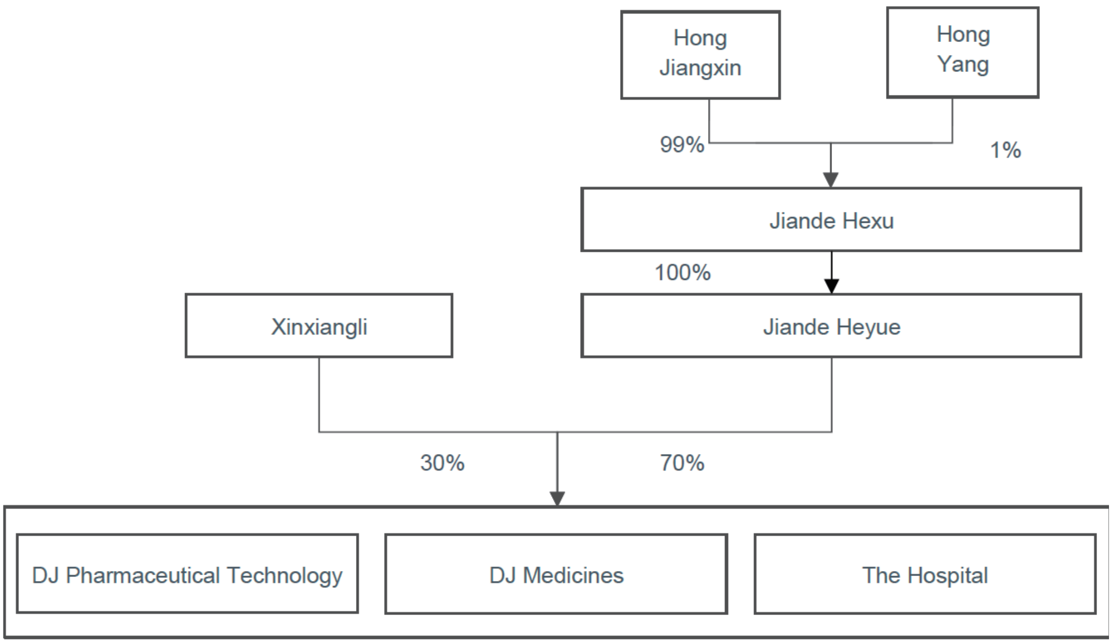
DJ Medicines, founded in 2005, is principally engaged in the supply of pharmaceutical products to The Hospital and third-party customers. Mr. Jiangxin Hong and Ms. Lijuan Hong (collectively "Vendors") acquired the equity interest in DJ Medicines on March 1, 2016, at a cash consideration of RMB 3 million.

DJ Pharmaceutical Technology, founded in 2014, owns certain properties that house The Hospital.

Before completion of corporate reorganization ("Reorganization"), Mr. Jiangxin Hong and Ms. Lijuan Hong owned 83% and 17% direct equity interest respectively in Zhejiang Xinxiangli Investment Co., Ltd. ("Xinxiangli Investment"), a company incorporated under the laws of the PRC with limited liability. Xinxiangli Investment and Mr. Jiangxin Hong owned 70% and 30% equity interest respectively in each of The Hospital and DJ Pharmaceutical Technology. The Hospital owned 100% equity interest in Zhejiang Dajia Medical Apparatus and Instruments Co., Ltd. ("大佳器械"), which owned 100% equity interest in DJ Medicines.

Upon completion of Reorganization in September 2017, Jiande Hexu Enterprise Management Co., Ltd. (建德和煦企業管理有限公司) ("Jiande Hexu"), a company newly incorporated in the PRC with limited liability and is owned as to 99% by Mr. Hong Jiangxin and 1% by Mr. Hong Yang, becomes the holding company and owns 100% equity interest in Jiande Heyue Enterprise Management Co., Ltd. (建德和悦企業管理有限公司) ("Jiande Heyue"), a company newly incorporated in the PRC with limited liability. Jiande Heyue and Xinxiangli Investment will own 70% and 30% equity interest in the Subject Companies, respectively.

The shareholding structure upon completion of Reorganization is presented as below:-



REVIEW OF COMBINED FINANCIAL STATEMENT OF THE SUBJECT COMPANIES

We have reviewed the audited combined financial statements of the Subject Companies for the financial years ended December 31, 2014, December 31, 2015, December 31, 2016, six-month ended June 30, 2017 and unaudited financial summary for nine-month ended September 30, 2017 provided by the Management without further verification.

The historical consolidated financial statements were presented as below:

RMB'000 unless specified otherwise	FY 2014	FY 2015	FY 2016	6-month period ended June 30, 2017	9-month period ended September 30, 2017
Revenue	142,047	149,782	154,210	73,241	118,353
Cost of revenue	130,535	132,137	140,549	55,774	83,245
Gross Profit	11,512	17,645	13,661	17,467	35,108
Gross Margin	8.1%	11.8%	8.9%	23.8%	29.7%
Earnings Before Interest and Tax ("EBIT")	2,375	8,111	5,284	12,709	26,745
Net Profit/Loss attributable to Subject Companies	(792)	4,186	919	9,529	20,207
Current Assets	129,298	189,927	131,680	129,821	94,257
Non-Current Assets	30,566	37,546	73,950	130,575	146,858
Current Liabilities	119,665	162,788	136,755	174,729	144,789
Non-current Liabilities	0	300	571	834	816
Net Asset Value	40,199	64,385	68,304	84,833	95,510

Source: the Management

Combined revenue of the Subject Companies increased from RMB 142.0 million in 2014 to 154.2 million in 2016, and revenue for the six months ended 30 June 2017 amounted to approximately RMB 73.2 million. Revenue growth was mainly driven by the increase in number of outpatient and inpatient visits. Cost of revenue increased from RMB130.5 million in 2014 to RMB140.5 million in 2016 mainly including costs of pharmaceutical, medical consumables, staff costs, depreciation and amortization expenses and other costs. The Subject Companies on a combined basis generated net loss of RMB 0.8 million in 2014, and reported net profit of RMB 4.2 million and RMB 0.9 million in 2015 and 2016 respectively. Gross profit and net profit margin decreased in 2016 because (a) construction of new building, that affected patients' access to The Hospital, slowed down revenue growth rate; and (b) at the same time, The Hospital increased headcount and staff costs to prepare for the expanded bed capacity.

In the first half of 2017, gross margin increased to 23.8%. Gross profit margin of the Subject Companies improved significantly during the period because: (1) after acquisition of DJ Medicines in March 2016, the Management of the Subject Companies started to integrate DJ Medicines into procurement system of The Hospital; (2) an agreement of conversion from not-for-profit to for-profit hospital was signed by the Health and Family Planning Bureau of of Jiande City and The Hospital in July 2016 and The Hospital was registered as a limited liability company and for-profit general hospital in September 2016. Integration of DJ Medicines, together with the conversion from not-for-profit to for-profit hospital, enabled The Hospital to reform its procurement system. By embedding the supply chain function of DJ Medicines, The Hospital started to benefit from having a streamlined procurement system which addressed the redundancies of the intermediates, lack of transparency and ongoing issues regarding quality and delivery. As a result, the Subject Companies was able to lower cost of inventories and consumables in the first half of 2017, resulting in a higher gross profit margin. The combined net profit of the Subject Companies was approximately RMB 9.5 million.

As of the Valuation Date, there was a series of short-term bank borrowing of approximately RMB 49.6 million. Book value of newly built hospital building was RMB 75.2 million as of the Valuation Date. The newly built hospital building was recorded as under construction in progress as of the Valuation Date and was recognized as buildings in September 2017.

ECONOMIC OUTLOOK

A sound appraisal of a business or business interest must consider current and prospective economic conditions of the national economy. The major variables reviewed in order to evaluate the overall state of the national economy include the current level of and changes in the gross domestic product (GDP), exchange rate, and the inflation rate. An overview of the national economies of China were essential to develop this outlook. The following economic discussion was extracted from Economist Intelligence Unit ("EIU") dated July 1, 2017.

China

The EIU expects economic growth to slow in the remainder of 2017 after a strong first quarter, when real GDP expanded by 6.9% year on year. A rebound in producer prices has lifted sentiment in the industrial sector, but the EIU expects easing supply constraints and softening demand to curtail the price rally. Infrastructure spending plans for 2017 appear to be significant, but administrative curbs in the property market will slow activity in the real-estate sector. Economic growth is forecast to reach 6.6% in 2017 as a whole.

The EIU forecasts that consumer prices will rise by a modest 2.2% a year on average in 2017 to 2021. In 2017 to 2018, the pace of inflation will be especially slow at 1.8% a year on average, as pork prices enter a downward cycle, monetary policy is tightened and the slowdown in economic growth hits consumer demand. Upward price pressures will become more apparent thereafter, stemming from a modest economic recovery, looser credit policy and higher levels of imported price inflation owing to firmer global commodity prices.

An interventionist approach is likely to characterize exchange-rate policy in the near term. The People's Bank of China (PBC, the central bank) had taken steps to move towards a more flexible exchange-rate regime, notably by signaling in December 2015 that it would manage the renminbi's value against a basket in currencies. However, in practice the PBC has continued to priorities a stable renminbi:US dollar exchange rate, mainly out of a desire to restrain capital outflows. The introduction in May 2017 of a so-called counter-cyclical factor into the mechanism for fixing the daily trading midpoint of the renminbi against the US dollar, designed to prevent excessive fluctuations, was the latest step in this regard.

INDUSTRY OVERVIEW

The following section was extracted from "China Healthcare Outlook 2017" published by J.P. Morgan in September 2016.

J.P. Morgan believes the healthcare industry will continue to grow at a robust pace for the next 5-10 years because of favorable demographics and government support for expanding insurance coverage.

J.P. Morgan expects healthcare spending in China to grow by 10-15% each year over the next 10 years, and healthcare expenditures as a portion of GDP should be approximately 6.5-7.0% by 2020 from the current level of ~5%, per government stated goals.

- According to the National Bureau of Statistics China, healthcare expenditure is just less than 5% of the GPD compared with over 10% for many developed nations.

- The new healthcare reforms in China aim to increase healthcare spending as a proportion of GDP and allocate resources more optimally. The Chinese are demanding that the government should increase healthcare spending and pay for a higher percentage of their healthcare costs.

J.P. Morgan expects the government to continue to invest heavily in building healthcare infrastructure and subsidize the expansion of healthcare insurance coverage to eventually get all Chinese citizens covered by some form of health insurance by 2020.

With the rising disposable income, the Chinese are becoming more health-conscious and will to spend out-of-pocket money even to treat minor illnesses.

The population is fast aging and consequently cancer, chronic illnesses, Alzheimer's, and other age-related illnesses become more prevalent.

The government is encouraging consolidation within each healthcare subsector, meaning that the leading players should be able to achieve top-line growth substantially higher than industry average.

Rapidly Developing Private Healthcare Service Market

China's healthcare service market will grow rapidly due to: rising aging population; accelerating chronic disease prevalence; increasing government spending; and expanding medical insurance coverage scheme. Frost and Sullivan estimates that the revenue of private general hospitals will reach RMB 335.5bn in 2020, representing a CAGR of 18.3% during 2015-20. The government aimed to boost no. of private hospital beds to provide 25% of total hospital beds by 2020.

Subsector Analysis - Hospital Services Market

Public hospitals dominate in China:

- About 80% of hospitals in China are public.
- The government controls prices.
- Services provided are generally reimbursable for a certain percentage.
- Government funding is limited, with hospitals expected to generate enough revenues to cover 70-90% operating expenses.
- Profits may not be distributed but retained for further development of the hospitals.

Privately owned hospitals:

- About 20% of hospitals are privately owned.
- Like public hospitals, non-profit private hospitals are required to set medical service fees within a range set by the relevant government authority.
- For-profit hospitals are permitted to set medical service fees based on market demand.
- Services provided are sometimes reimbursable.
- Private hospitals generally receive no government funding.

Competitive landscape: As of December 2015, there were 13,384 private hospital beds in China, with over 3.58mn beds. The market is very fragmented, and no single player has significant market share at this stage.

Key drivers of the private hospital market in China include the establishment of new hospitals and privatization of existing public hospitals through various business models such as China Resource Healthcare, Phoenix, and Fosun.

SCOPE OF WORK AND KEY ASSUMPTIONS

Our investigation included discussions with the Management with regard to the history, operations and prospects of the Subject Companies, overview of certain financial data, an analysis of the industry and competitive environment, an analysis of comparable companies, and a review of transactions, operating statistics and other relevant documents. For this appraisal, we made reference to or reviewed the following major documents and data:

- Audited combined financial statements of the Subject Companies for the financial years ended December 31, 2014, December 31, 2015, December 31, 2016 and six-month ended June 30, 2017
- Unaudited combined financial statements of the Subject Companies for July, August and September 2017
- Financial forecast for the 6-month ended December 31, 2017 and for the year ended December 31, 2018 to December 31, 2022. The financial forecast for December 31, 2018-December 31, 2022 is solely for the purpose of internal reference and purchase price allocation to be performed.
- Breakdowns of revenue for different hospital services
- Breakdowns of costs and expenses
- Breakdowns of other receivable due from related parties, other payable due to related parties, accruals, other payables and provisions
- A copy of outstanding loan documents
- A copy of Sales Purchase Agreement to acquire economic interest of the Subject Companies
- A copy of the legal due diligence report issued by Commerce & Finance Law Office
- Copies of the various licenses related to The Hospital's operation
- A copy of GSP licenses related to DJ Medicines' operation
- Certificates of Land Use Right of The Hospital and DJ Pharmaceutical Technology

We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us by the Management, are true and accurate and accepted them without independent verification except as expressly described herein. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading. In arriving at our opinion of value, we have considered the following principal factors:

- the stage of development of the Subject Companies
- the historical costs of the Subject Companies
- the economic outlook for major countries affecting the industry
- the legal and regulatory issues of the healthcare industry in general and other specific legal opinions relevant to the Subject Companies
- the transaction prices of the comparable companies properties
- the risks associated with the Subject Companies
- the history and experience of the Subject Companies.

Due to the changing environments in which the Subject Companies are operating, a number of assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation are:

- no major changes are expected in political, legal and economic conditions in China;
- regulatory environment and market conditions for healthcare industry will be developing according to prevailing market expectations;
- there will be no major changes in the current taxation law applicable to the Subject Companies;
- The Subject Companies will not be constrained by the availability of finance;
- the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations; and
- The Subject Companies will retain competent management, key personnel and technical staff to support their ongoing operations.

VALUATION METHODOLOGY OVERVIEW

In the appraisal of the equity, or the net assets, of a business, regardless of their diversity, location, or technological complexity, there are three basic approaches to perform a valuation. The descriptive titles typically attached to these approaches are cost, income, and market. In normal circumstances, the appraiser is obliged to consider all three approaches, as any, or perhaps all, may provide reliable measures of value.

Cost approach established value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk.

Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach.

To develop our opinion of value, the three generally accepted approaches to value are considered: cost, market and income. While useful for certain purposes, the cost approach is generally not considered applicable to the valuation of a going concern business, as it does not capture future earning potential of the business. Thus, cost approach is not utilized in the valuation. The market approach may represent more objective view and more weight relatively under fair value measurement hierarchy but have the limitation in the case that those comparable companies may be in different operation period, cover different regions in the world with different business specialty, scale of operation, market situation, growth potential, business or country risks and tax rate. Income approach may reflect company specific factors, including terms of hospital operation, geographic regions, scale of operation, growth potential, tax rate, of the Subject Companies but have the limitation that it would involve a high level of uncertain, long-term forward-looking financial forecast and underlying assumptions. In this appraisal, given The Hospital just added bed capacity of new building, there would be uncertainties associated with its business plan to ramp up utilization rate and underlying long term financial forecast. We believed income approach result would be more dependent on long term financial forecast internally prepared by the Management, which is unobservable input and inherently subjective. In comparison, because market approach mainly utilizes market observable inputs, estimated financial performance and actual operating capacity of the Subject Companies in current year, it would provide more objective indication of market value from a willing buyer and willing seller's perspective. With consideration of the above, in forming our opinion, we consider market approach is more appropriate than income approach in the Valuation and rely on market approach known as guideline company method ("Guideline Company Method") as primary valuation method to arrive at our conclusion of value.

Market Approach — Guideline Company Method One methodology employed in the market approach is the Guideline Company Method (GCM), where financial ratios of comparable companies were analyzed to determine a value for the subject company. This method employs market price data of stocks of corporations engaged in the same or a similar line of business as that of the subject company. Stocks of these corporations are actively traded in a public, free, and open market, either on an exchange or over-the-counter.

Prospective Financial Information of The Subject Companies on a Combined Basis for 2017

The Management prepared a financial projection of the Subject Companies for 2017. We assessed major items in the projection, such as revenue forecast and operating expenses etc. The assessment was accomplished through our limited research on economic, industry outlook, and market conditions prevailing as of the Valuation Date, comparison with historical financial performance and those of comparable companies and discussion with the Management on the Financial Projection. The major assumptions are as follows:

Revenue

The Management estimated total revenue of RMB 166.96 million with consideration of the following:

a) Capacity factor: As The Hospital increased the number of beds from 250 in 2016 to 450 by September 2017, it would take time to ramp up the utilization rate, therefore, the estimated revenue per registered bed in 2017 (RMB 527,000) would be lower than historical 3- year average (2014-16) of RMB 692,000, and the estimated utilization rate in 2017 (61%) would be lower than historical 3-year average (2014-16) of 85% and industry benchmark of 94% on nationwide basis.

b) Seasonability factor: the fourth quarter is a traditionally high season accounting for over 29% of total revenue based on historical data in 2016.

Taking into account of actual revenue in the first half of 2017, capacity and seasonability factors above, we considered revenue estimated by the Management was fair and reasonable for the Valuation.

Cost of Revenue and Operating Expense

The Management estimated that cost of revenue and operating expense were RMB116.48 million and RMB 12.68 million respectively in 2017. The Management's assumptions have considered the following: -

a) It was estimated total staff cost would remain relatively stable in 2017 because The Hospital already increased headcount for the expanded capacity in 2016. Doctor per bed and nurse per bed were estimated at 0.86 and 0.68 respectively, which are higher than industry benchmark of 0.58 and 0.62 respectively in the Zhejiang province.

b) Cost of revenue would decline from RMB 140.55 million in 2016 to RMB 116.48 million in 2017. The significant decrease in cost of revenue was mainly due to the decrease in cost of inventories and consumables attributable to the lower cost of pharmaceutical products offered by DJ Medicines and the supports provided by DJ Medicines in the procurement channel.

With consideration of above factors, the Management expected EBIT of RMB 37.80 million in 2017, indicating EBIT margin of 23%, which is in the range of 5-year average EBIT margin of comparable companies of -2% and 49% with average margin of 20%.

Taking into account of improvement of profitability of the Subject Companies in the first half of 2017, and average margin of guideline companies, we considered EBIT estimated by the Management was fair and reasonable for the Valuation.

Net Income

The Management forecasted net income of RMB 28.50 million after taking into consideration of statutory tax rate of 25%.

Identification of Comparable Companies

By using GCM, financial ratios of comparable companies are analyzed to determine a value for the subject business. This method also employs market price data of stocks of corporations engaged in the same or a similar line of business as that of the subject business. We searched comparable companies which have business natures and places of operation similar to that of the Subject Companies from Bloomberg. Selection criteria of comparable companies are listed below:

1. public companies listed in Hong Kong with principal place of operation in the PRC; and

2. companies that are mainly engaged in provision of hospital services.

Based on these criteria, we have identified and described below 7 comparable companies below, which is a fair and representative sample. To the best of our knowledge, this sample is full and exhaustive and was selected on our best effort and unbiased criteria based on search from Bloomberg.

Based on discussion with the Management, although the selected guideline companies may differ in size, specialty, location as compared with the Subject Companies, they believed a willing buyer and a willing seller would consider these selected guideline companies as fair and representative samples and referred to their trading multiplies in estimating values of companies in China hospital services sector:

1. Hospital Corp of China Ltd. is a hospital operation and management group. The Company consolidate medical resources to provide medical services and treatment of diseases.

2. New Century Healthcare Holding Co. Limited operates as a holding company. The Company, through its subsidiaries, manages pediatrics, obstetrics, and gynecology hospitals throughout China.

3. Guangdong Kanghua Healthcare Co., Ltd. owns and operates hospitals. The Company offers healthcare, cardiovascular related, and medical services. Guangdong Kanghua Healthcare serves patients in China.

4. Rici Healthcare Holdings Limited operates private integrate health care hospitals. The Company provides high-end medicare, specialized hospital, physical examination, medical products supply, and other related services throughout China.

5. Wenzhou Kangning Hospital Co., Ltd. is a psychiatric health-care group. The Company operate and manage health-care facilities and hospitals throughout China.

6. Harmonicare Medical Holdings Limited is a private obstetrics and gynecology specialty hospital group in China. The Company's departments include ultrasound, radiology, laboratory and pharmacy. Harmonicare also offers dental care and medical aesthetic services.

7. China Resources Phoenix Healthcare Holdings Company Limited owns and operates hospitals and clinics. The Company offers a range of healthcare services from primary preventive care to acute care and post-operative rehabilitation.

Selection of Market Multiple

We calculated enterprise value ("EV") to earnings before interest, tax, depreciation and amortization ("EBITDA"), EV to earnings before interest and tax ("EBIT") and Price to net income multiples of the above seven comparable companies. The time periods for those earnings denominator of price multiples included the 2017 forecast annual results. We believe, and the directors of the Company concur, that it is fair and reasonable to use 2017 financial projection for assessing the value of the Subject Companies because (i) The Hospital underwent an expansion in 2017 to increase capacity from 250 beds to 450 beds, and the new hospital building, which has a capacity of 200 beds and is equipped with 30 new hemodialysis machines, was put into use in the second half of 2017. 2017 forward looking multiples would better reflect earning capability of the Subject Companies on a combined basis after the expansion; and (ii) as Management of the Subject Companies integrated DJ Medicines to streamline the procurement system of The Hospital, the Subject Companies started to lower cost of revenue and improve profitability in the first half of 2017. As such, as compared with historical price multiples, 2017 leading price multiples would properly reflect the combined impact of the expansion and streamlined procurement system on earning capabilities of the Subject Companies. In contrast, historical earnings of the Subject Companies for 2016 and latest twelve months might not fully capture earning capabilities of the Subject Companies because (i) they did not reflect economic benefits of the new hospital building; (ii) the construction of new building in 2016 affected patients' access to The Hospital, temporarily slowed down revenue growth rate and lowered profitabilities of The Hospital;

and (iii) after acquisition of DJ Medicines in March 2016, Management took time to relocate DJ Medicines' office and integrate DJ Medicines into the procurement system of The Hospital. In addition, The Hospital was registered as a limited liability company and for-profit general hospital in September 2016. As a result, the positive impacts of DJ Medicines' integration and The Hospital's conversion from not-for-profit to for-profit hospital on reform of The Hospital's procurement system, did not become prominent until the first half of 2017. 2017 earnings estimate of guideline companies was extracted from Bloomberg's earning consensus. As EV/ number of beds is a valuation metric commonly considered by market participants in valuing companies in hospital sector, we also calculated EV to total number of registered beds multiple of guideline companies. A comparison was made between the Subject Companies on a combined basis and the guideline companies on the basis of liquidity, asset utilization, leverage, profitability, historical growth rate and other financial ratios. Selected financial ratios are as follows:

	Guideline Companies				**The Subject Companies on a combined basis**	
Financial Ratio	**High**	**Low**	**Average**	**Median**	**Average ratio in 2014~16**	**First half of 2017**
Latest 3 or 5 financial year* average revenue growth (note 1)	32.7%	13.1%	19.5%	17.9%	7.2%	-2.4%
Latest 3 or 5 financial year* current ratio (note 2)	3.1	1.1	2.1	2.0	1.1	0.7
Latest 3 or 5 financial year* EBIT margin (note 3)	49.5%	-2.3%	20.5%	15.3%	3.5%	17.4%

Sources: the Management, Bloomberg and Analysis of Duff & Phelps China.

(Note 1)- average revenue growth rate was computed as simple average of year to year growth rate, where year to year growth rate was equal to (current year revenue - prior year revenue)-1. Revenue growth rate in the first half of 2017 was equal to (first half of 2017 revenue/first half of 2016 revenue)-1

(note 2)- current ratio was computed as current assets/ current liabilities

(note 3)- EBIT margin was computed as earning before interest and tax/ revenue.

The purpose of the selected financial ratios was to assess the differences between the Subject Companies and guideline companies in term of growth rate, profitability and risk profile. We then further analyzed the factors behinds the differences and considered those factors in selection of market multiples.

While the analysis above indicated historical revenue growth rate, current ratio and EBIT margin of the Subject Companies were lower than those of guideline companies, the Subject Companies lowered their cost of revenue and improved its gross profit margin from 8.9% in 2016 to 23.8% in first half of 2017. In addition, as The Hospital recently expanded its bed capacity, it might have greater growth potential in the future. Although The Hospital just recently expanded its bed capacity and might take time to increase its utilization rate, we expected that, in long term, utilization rate of The Hospital and economic benefit of the bed capacity would gradually resume to industry level, taking into account of (1) Historical utilization rate of The Hospital: based on information provided by the Management, before construction of new building, utilization rate of The Hospital was 90% and 91% in 2014 and 2015, respectively; and (2) Demand and supply in local market: In 2016, the number of bed per thousand residents in Jiande city was 4.2. After The Hospital increased the number of beds by 200 in 2017, the ratio increased to 4.7 in 2017. This is in line with the level in Zhejiang province (4.7 per 1,000 residents) and is lower than the level in Hangzhou (7 bed per 1,000 residents). Therefore, we believed there should be sufficient market demand to absorb the expanded bed capacity and ramp up utilization rate of The Hospital. With consideration of the improving trend of the Subject Companies profitability and growth potential, we believed that the Subject Companies' future performance would be in line with the guideline companies and hence median of guideline companies' financial multiplies and adjusted EV/number of beds should be appropriate for the valuation.

Details of selected price multiple appropriate to The Hospital, DJ Medicines and DJ Pharmaceutical Technology on a combined basis are listed below: -

	Guideline Companies				Selected for the Valuation of the Subject Companies on a combined basis
Price Multiples	**High**	**Low**	**Average**	**Median**	**(Rounded)**
2017 EV / Estimated EBITDA	16.5	8.3	12.0	11.9	12.0
2017 EV / Estimated EBIT	19.4	10.7	15.4	15.9	16.0
2017 P / Estimated Net Income	28.4	13.2	21.1	21.5	21.5
2017Adjusted EV / Total Number of Registered Beds (RMB'000) (Note 1)	11,787	720	3,943	1,791	1,500
Note 1: As most guideline companies derive revenue not only from hospital services but also other services, therefore, we multiplied enterprise values of guideline companies by % of revenue contribution from hospital service to derive an adjusted enterprise values and then divided the adjusted enterprise value by their numbers of beds to arrive at comparable multiples.					

Sources: Bloomberg L.P and Analysis of Duff & Phelps China

Value Indicated by the Market Approach

We selected the median multiple which is then multiplied by 2017 EBITDA, 2017 EBIT, 2017 net income and registered beds of The Hospital, DJ Medicines and DJ Pharmaceutical Technology on a combined basis as of the Valuation Date to arrive at total business enterprise value of the Subject Companies on a combined basis and on a marketable and non-controlling basis in a range of be RMB 508 million and RMB 675 million. Detailed computation was shown as below: -

Selected Multiples	**Respective economic measure**	**Indicated Value of Total Business Enterprise on a marketable and non-controlling basis**
Adjusted EV/Registered no. of bed = RMB 1.5 million per bed	450 beds	RMB 675 million
EV/2017 Estimated EBITDA = 12.0x	RMB 42.36 million	RMB 508 million
EV/2017 Estimated EBIT = 16.0x	RMB 37.80 million	RMB 605 million
P/2017 Estimated Earning = 21.5x	RMB 28.50 million	RMB 636 million (note 1)
Note 1: We multiplied selected P/E of 21.5x by RMB 28.50 million to arrive at equity value of RMB 613 million. We then added debt (net of excess cash) of RMB 23 million to arrive at business enterprise value of RMB 636 million.		

Sources: the Management and Analysis of Duff & Phelps China

Average standard derivation of share price movement of guideline companies in China hospital services sector was approximately 33%. This was consistent with the difference between high end and lower end of indicated value of total business enterprise value (i.e. RMB 675 million/ RMB 508 million -1 = 33%) . Therefore, we considered the range indicated value of total business enterprise value to be reasonable.

After deriving total business enterprise of the Subject Companies on marketable and non-controlling, we deduced market value of 70% equity interest of the Subject Companies by the formula below:

Valuation metrics	Indicated Value of Total Business Enterprise on a marketable and non-controlling basis	Added 20% premium for control at business enterprise value level	Subtracted 10% discount for lack of marketability at business enterprise value level	Added/ (Subtracted) Cash and non-operating assets (Debt and non-operating liabilities)	Market value of 100% equity interest on non-marketable and controlling basis	70% Market Value of Equity Interest of the Subject Companies
	(A)	(B)	(C)	(D)	E=(A+B+C+D)	E*70%
Adjusted EV/Registered no. of bed	RMB 675 million	RMB 135 million	(RMB 68 million)	RMB 15 million	RMB 757 million	RMB 530 million
EV/2017 Estimated EBITDA	RMB 508 million	RMB 102 million	(RMB 51 million)	RMB 15 million	RMB 574 million	RMB 402 million
EV/ 2017 Estimated EBIT	RMB 605 million	RMB 121 million	(RMB 60 million)	RMB 15 million	RMB 681 million	RMB 477 million
P/2017 Estimated Earning	RMB 636 million	RMB 127 million	(RMB 64 million)	RMB 15 million	RMB 714 million	RMB 500 million

For the basis of premium for control, discount for lack of marketability, cash and non-operating assets, and debt and non-operating liabilities, please refer to "Additional Valuation Consideration" section.

ADDITIONAL VALUATION CONSIDERATION

Premium for Control

Premium for control is the additional value inherent in the controlling interest, as contrasted to a minority interest that reflects the power of control. The thousands of daily transactions on stock exchanges are, of course, minority interest transactions. Each year, a controlling interest in a few hundred of these public companies is purchased at a price that is substantially higher than the published market price of the securities. The public markets provide information on control premiums through acquisition transactions. When a controlling interest in a publicly traded firm is acquired and taken private, the purchaser normally pays a premium above the freely traded, minority interest share price. The difference between the published price of the shares before their acquisition and the purchase price of the controlling interest is referred to as the control premium.

When valuing the Subject Companies on a combined basis based on guideline companies' multiples, the level of value is presented on freely traded and non-controlling basis. A premium for control reflects the degree of control associated with a 70% interest in the shares of the Subject Companies on a combined basis. To estimate the control premium applicable to the Subject Companies on a combined basis, we relied on indications of control premiums from data on acquisition transactions in the Healthcare industry over the past five years. As indicated by market data, a 20% control premium on business enterprise level was considered to be appropriate.

Discount for Lack of Marketability ("DLOM")

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. However, the DLOM is applicable at business enterprise or equity level but not on individual assets level.

In this appraisal, the discount for lack of marketability was considered to be 10% based on option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the private held share can be sold, was considered as a basis to determine the lack of marketability discount. This option-pricing method is one of the methods commonly used in estimating DLOM as it can take into consideration factors like timing of liquidity event and estimated volatility of the shares of the Subject Companies. The farther the valuation date is from an expected liquidity event, the higher the put option value and thus the higher the implied DLOM. DLOM is applicable to the results derived from guideline company method.

We considered DLOM of 10% should be fair and reasonable in the Valuation because (i) this was determined by put option pricing model, which was commonly used by valuation practitioners in quantifying DLOM; and (ii) the model takes into account industry specific factors, including volatility of companies in China hospital services sector and estimated time to complete the proposed transaction.

Excess Cash, Excess or Non-Operating Asset/(Liabilities)

After applying 10% discount for lack of marketability on value of operation of the Subject Companies on a combined basis, we added the following excess cash and non-operating assets and subtracted non-operating liabilities to arrive at fair value of the equity interest of the Subject Companies on a combined basis:

- Added excess cash of RMB 26.2 million;
- Added Other Receivable which is related to intracompany financing of RMB 63.7 million;
- Subtracted Other Payable which is related to intracompany financing of RMB 25.8 million;
- Subtracted Outstanding Debt of RMB 49.6 million.
- Added Deferred Tax Assets of RMB 0.3 million.

SENSITIVITY/SCENARIO ANALYSIS

As part of our valuation, a sensitivity analysis of value indication arrived at using the Market Approach was performed. We have tested sensitivity of 70% equity value in the Subject Companies on a combined basis to changes of liquidation event period.

Liquidation Event Period Sensitivity Analysis

Sensitivity of the value change was performed on every half-year change in liquidation event period applied in calculation of the adjustments on DLOM under Market Approach in a range from 10% to 20%. Liquidation event is commonly defined as a change or transfer in ownership an enterprise (for example, an IPO, merger, sale , change of control, sale of substantially all assets, or dissolution). In relation to this Valuation, liquidation event period represents the estimated time to complete this proposed acquisition. The following table summarized sensitivity analysis results:

		Range of Values of 70% Equity Interest in the Subject Companies (RMB'000)	
Liquidation Event Period	**DLOM Percentage**	**Low-end**	**High-end**
0.5 year	10%	402,000	530,000
1.0 year	15%	384,000	507,000
1.5~2.0 year	20%	366,000	483,000

The above analysis indicated that, in base case, market value of 70% equity interest of the Subject Companies is reasonably stated in the range of RMB 402 million to RMB 530 million. We considered the range as reasonable because the difference between high end and low end (i.e. RMB 530 million/ RMB 402 million -1=31%,) was largely consistent with 33% standard derivation of share price movement of guideline companies in China hospital services sector.

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above, it is our opinion that the market value of 70% equity interest in The Hospital, DJ Medicines and DJ Pharmaceutical Technology on a combined basis as of the Valuation Date is reasonably represented in a range of RENMINBI FOUR HUNDRED AND TWO MILLION (RMB 402,000,000) and RENMINBI FIVE HUNDRED AND THIRTY MILLION (RMB 530,000,000).

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We do not provide assurance on the achievability of any financial results estimated by The Hospital, DJ Medicines and DJ Pharmaceutical Technology because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of Management.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

Respectfully submitted,
For and on behalf of
D&P China (HK) Limited

Patrick Wu	Kevin Leung
Regional Managing Director	Managing Director

Note: This valuation was prepared under the direct supervision of Mr. Kevin Leung as project-leader-in-charge with substantial professional assistance from Ms. Tracy Chow and Ms. Winifred Wang and concurring technical review by Mr. Ricky Lee, another Managing Director based in Hong Kong. The final conclusion was approved by Mr. Patrick Wu as regional managing director and practice leader of the firm's Greater China valuation advisory services.

Mr. Kevin Leung has been involved in business valuation for the purpose of joint venture, merger and acquisition and public listing for over 14 years. Mr. Leung has prior experience in conducting equity interest valuation to Hong Kong listed China based hospital companies. He is an Accredited Senior Appraiser of American Society of Appraisers, a fellow member of the Association of Chartered Certified Accountants and charterholder of the Chartered Financial Analyst.

Mr. Patrick Wu is responsible for the management and strategic development of the firm's Greater China operation which has offices in Hong Kong, Beijing, Shanghai, Guangzhou, and Shenzhen and Taipei. Mr. Wu was qualified as a lawyer and has served as an independence Non-Executive Director on the board of directors of a Hong Kong listed company. He is extensively involved in providing professional consulting services for a wide range of public organizations and business sectors, such as banking, business acquisitions, public listings, real estate and investment in Hong Kong and the PRC, professional development, quality assurance and business development.

羅兵咸永道

The Board of Directors
Hospital Corporation of China Limited
PO Box 309, Ugland House, Grand Cayman, KY 1-1104, Cayman Islands

3 November 2017

Dear Sirs,

Profit Forecast of Jiande Hospital of Traditional Chinese Medicine Co., Ltd. (the "Hospital"), Zhejiang Dajia Medicines Co., Ltd. ("DJ Medicines"), and Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. ("DJ Pharmaceutical Technology") for the year ending 31 December 2017

We refer to the forecast of the combined net profit of the Hospital, DJ Medicines and DJ Pharmaceutical Technology (together, the "Target Operating Companies") for the year ending 31 December 2017 (the "Profit Forecast") set forth in the business valuation (the "Valuation") dated 27 October 2017 prepared by D&P China (HK) Limited in respect of the appraisal of the fair value of the 70% equity interest in the Target Operating Companies.

Directors' Responsibilities

The Profit Forecast has been prepared by the directors of the Company based on the audited combined results of the Target Operating Companies for the six months ended 30 June 2017, the unaudited combined results based on the management accounts of the Target Operating Companies for the three months ended 30 September 2017 and a forecast of the combined results of the Target Operating Companies for the remaining three months ending 31 December 2017.

The Company's directors are solely responsible for the Profit Forecast.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Forecast based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Forecast in accordance with the bases and assumptions adopted by the directors and as to whether the Profit Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions adopted by the directors as set out on pages 7 to 10 of the Valuation and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Company as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2016.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

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)

December 15, 2017

The Stock Exchange of Hong Kong Limited
11/F, One International Finance Centre
1 Harbour View Street
Hong Kong

Dear Sir/Madam,

We refer to the valuation report dated October 27, 2017 prepared by D&P China (HK) Limited, an independent valuation firm (the "**Valuer**") in relation to the valuation of the market value of 70% equity interest in each of Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* (建德中醫院有限公司) (the "**Hospital**"), Zhejiang Dajia Medicines Co., Ltd.* (浙江大佳醫藥有限公司) ("**DJ Medicines**"), and Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd.* (建德大家中醫藥科技有限公司) ("**DJ Pharmaceutical Technology**") on a combined basis using the market approach with guideline company method based on the forecast of the combined net profit of the Hospital, DJ Medicines and DJ Pharmaceutical Technology for the year ending December 31, 2017 (the "**Valuation Report**"), which is set out in Appendix V to this circular. The Valuation Report is regarded as a profit forecast under Rule 14.61 of the Listing Rules (the "**Forecast**"). Unless the context requires otherwise, terms used in this letter have the same meanings as defined in this circular.

We hereby confirm that we have reviewed the Valuation Report prepared by the Valuer for which the Valuer is responsible for, including the bases and assumptions upon which the Valuation Report have been prepared. We have also reviewed the calculations for the Forecast and have also considered the letter from PricewaterhouseCoopers dated November 3, 2017, as set out in Appendix VI to this circular regarding the calculations upon which the Forecast in the Valuation Report has been made.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, we hereby confirm that the Forecast used in the aforesaid Valuation Report has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of the Board of
Hospital Corporation of China Limited
Zhang Xiaopeng
Executive Director and Chief Executive Officer

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS

At the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein, or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange were as follows:

Name of Director/ chief executives	Number of Shares	Capacity/Nature of interests	Approximate percentage to the number of issued Shares *(Note 3)*
Zhao John Huan	97,000,000	Interest in controlled corporation	70.19%
	2,500,000	Deemed interest *(Note 1)*	1.81%
Zhang Xiaopeng	2,860,000	Interest in controlled corporation *(Note 2)*	2.07%
	1,727,425	Beneficial owner	1.25%

Notes:

1. The Shares held by Midpoint Honour Limited and pledged in favor of Hony Capital 2008 Management Limited.

2. Including the Shares held by Midpoint Honour Limited and pledged in favor of Hony Capital 2008 Management Limited.

3. At the Latest Practicable Date, the total number of issued Shares was 138,194,000.

Save as disclosed above, as of the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein, or (iii) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors, the interests or short positions of the persons (not being Directors or chief executives of the Company) in shares and underlying Shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and/or required to be entered into the register maintained by the Company pursuant to section 336 of the SFO were as follows:

Name of substantial Shareholder	Number of Shares	Capacity/Nature of interests	Approximate percentage to the number of issued Shares *(Note 4)*
Vanguard Glory Limited	97,000,000	Beneficial owner	70.19%
Hony Capital Fund V, L.P. *(Note 2)*	97,000,000	Interest in controlled corporation	70.19%
Hony Capital Fund V GP, L.P. *(Note 2)*	97,000,000	Interest in controlled corporation	70.19%
Hony Capital Fund V GP Limited *(Note 2)*	97,000,000	Interest in controlled corporation	70.19%
Hony Group Management Limited *(Note 1) (Note 2)*	99,500,000	Interest in controlled corporation; deemed interest	72.00%
Hony Managing Partners Limited *(Note 1) (Note 2)*	99,500,000	Interest in controlled corporation; deemed interest	72.00%
Exponential Fortune Group Limited *(Note 1) (Note 2)*	99,500,000	Interest in controlled corporation; deemed interest	72.00%
Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) (安徽省中安健康養老服務產業投資合夥企業(有限合夥))*(Note 3)*	9,098,800	Beneficial owner	6.58%
Anhui Zhong'an Health Investment Management Co., Ltd. (安徽中安健康投資管理有限公司)*(Note 3)*	9,098,800	Interest in controlled corporation	6.58%

Name of substantial Shareholder	Number of Shares	Capacity/Nature of interests	Approximate percentage to the number of issued Shares (Note 4)
Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥)) (Note 3)	9,098,800	Interest in controlled corporation	6.58%
Anhui Investment Group Holdings Co., Ltd. (安徽省投資集團控股有限公司) (Note 3)	9,098,800	Interest in controlled corporation	6.58%
Mr. Li Yuan (Note 3)	9,098,800	Interest in controlled corporation	6.58%

Notes:

1. Aggregating the Shares held by Midpoint Honour Limited and pledged in favor of Hony Capital 2008 Management Limited.

2. Hony Capital Fund V, L.P. is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Capital Fund V, L.P. is Hony Capital Fund V GP, L.P., whose general partner is Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is wholly owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly owned by Exponential Fortune Group Limited. Exponential Fortune Group Limited is held as to 49% by Mr. Zhao John Huan.

3. Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) is a limited partnership formed under the laws of the PRC as an investment vehicle. The general partner of Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) is Anhui Zhong'an Health Investment Management Co., Ltd. ("**Anhui Zhong'an**"). Anhui Zhong'an is jointly held as to 50% by Hefei Kangyang Capital Management Partnership (Limited Partnership) and as to 45% by Anhui Investment Group Holdings Co., Ltd.. Mr. Li Yuan is the general partner of Hefei Kangyang Capital Management Partnership (Limited Partnership).

4. As at the Latest Practicable Date, the total number of issued Shares was 138,194,000.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, the Company has not been notified by any persons (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Enlarged Group.

4. DIRECTORS' INTERESTS

(a) At the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since December 31, 2016 (being the date to which the latest published audited financial statements of the Group were made up).

(b) At the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, which was subsisting and was significant in relation to the business of the Enlarged Group.

(c) Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. EXPERTS AND CONSENTS

The following are the names and qualifications of the experts who have given opinions contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
D&P China (HK) Limited	Independent Valuer

PricewaterhouseCoopers and Duff & Phelps China have given and have not withdrawn their written consents to the issue of this circular with the inclusions of their reports and/or references to their names in the form and context in which they respectively appear.

6. EXPERTS' INTEREST

PricewaterhouseCoopers and Duff & Phelps China have confirmed that as at the Latest Practicable Date:

(a) they did not have any shareholding interest whether directly or indirectly in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and

(b) they did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to any member of the Group since December 31, 2016 (being the date up to which the latest published audited consolidated financial statements of the Group were made).

7. SERVICE CONTRACTS

At the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with any member of the Enlarged Group which is not expiring or terminable by the employer within one year without payment of compensation other than statutory compensation.

8. MATERIAL LITIGATION

At the Latest Practicable Date, there was no litigation or claim of material importance that is known to the Directors to be pending or threatened against any member of the Enlarged Group.

9. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had any interest in any businesses which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

10. MATERIAL CONTRACTS

The following contracts have been entered into by the Enlarged Group (not being a contract entered into in the ordinary course of business) within two years immediately preceding the date of this circular; and is or may be material:

(a) an equity transfer agreement dated August 23, 2017, entered into among Shanghai Weikang Investment Management Co., Ltd.* (上海維康投資管理有限公司) ("**Shanghai Weikang**"), being a subsidiary owned indirectly as to 80% by the Company, as the seller, and Shanghai Hongfa Enterprise (Group) Co., Ltd.* (上海宏發企業(集團)有限公司) ("**Shanghai Hongfa**"), as the purchaser, pursuant to which the entire equity interest in Shanghai Fuhua Hospital Co., Ltd.* (上海福華醫院有限公司) was disposed by Shanghai Weikang to Shanghai Hongfa for a total consideration of RMB43,000,000;

(b) the Letter of Intent;

(c) the Sale Purchase Agreement; and

(d) the Facility Agreement.

11. GENERAL

(a) The registered office of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Suite 2701, One Exchange Square, Central, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretary of the Company is Ms. Kwong Yin Ping Yvonne, who has been a fellow of the Hong Kong Institute of Chartered Secretaries and a fellow of the Institute of Chartered Secretaries and Administrators since December 2012.

(e) This circular is in both English and Chinese. In the event of inconsistency, the English text shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of Cleary Gottlieb Steen & Hamilton (Hong Kong) at 37/F, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong from the date of this circular and up to and including the date which is 14 days from the date of this circular:

(a) the memorandum of association and articles of association of the Company;

(b) the accountant's report on the Target Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this circular;

(c) the report on the unaudited pro forma financial information of the Enlarged Group from PricewaterhouseCoopers, the text of which is set out in Appendix III to this circular;

(d) the Valuation Report, the text of which is set out in Appendix V to this circular;

(e) the letter from PricewaterhouseCoopers in relation to the forecast of the combined net profit of the Hospital, DJ Medicines and DJ Pharmaceutical Technology for the year ending December 31, 2017 set forth in the Valuation Report, the text of which is set out in Appendix VI to this circular;

(f) the letter from the Board in relation to the Valuation Report, the text of which is set out in Appendix VII to this circular;

(g) the written consents referred to in the section headed "5. Experts and Consents" in this appendix;

(h) each of the material contracts referred to in the section headed "10. Material Contracts" in this appendix;

(i) the annual report of the Company for the year ended December 31, 2016;

(j) the prospectus of the Company published on February 28, 2017; and

(k) this circular.