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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or transferred all your shares in Phoenix Healthcare Group Co. Ltd (鳳凰醫療集團有限公司), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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PHOENIX  
HEALTHCARE  
GROUP  
鳳凰醫療集團

**Phoenix Healthcare Group Co. Ltd**  
**鳳凰醫療集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 1515)**

**(1) CONTINUING CONNECTED TRANSACTIONS AND SPECIAL DEALS  
UNDER YAN HUA IOT AGREEMENT**  
**(2) CONTINUING CONNECTED TRANSACTIONS  
AND SPECIAL DEALS  
UNDER PMM SALES FRAMEWORK AGREEMENT  
AND**  
**(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders**



**VMS Securities Limited**

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Unless the context otherwise requires, capitalised terms used in this cover shall have the same meanings as defined in this circular.

A letter from the Board is set out on pages 7 to 26 of this circular. A letter from the Independent Board Committee is set out on pages 27 to 28 of this circular. A letter from VMS Securities Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 42 of this circular.

A notice convening the EGM to be held at E-825, Fuli Morgan Center, No. 6 Taiping Street, Xicheng District, Beijing, the PRC on Monday, 31 October 2016 at 11:00 a.m. (or as soon thereafter as the extraordinary general meeting of the Company convened by a notice of extraordinary general meeting dated 7 October 2016 for the same day and place shall have concluded or adjourned) is set out on pages 49 to 51 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.phg.com.cn](http://www.phg.com.cn)).

Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish and in such event, the form of proxy shall be deemed to be revoked.

14 October 2016

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## DEFINITIONS

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

“Acquisition”	the acquisition of the entire issued share capital of Ample Mighty Limited as contemplated under the Acquisition Agreement
“Acquisition Agreement”	the share sale and purchase agreement dated 30 August 2016 entered into between the Company, Pinyu Limited and China Resources Healthcare Group Limited in respect of the Acquisition
“Acquisition Announcement”	announcement of the Company dated 30 August 2016 in relation to, among other things, the Acquisition and the Whitewash Waiver
“Acquisition Circular”	circular of the Company dated 7 October 2016 in relation to, among other things, the Acquisition and the Whitewash Waiver
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Beijing Jiayi”	Beijing Phoenix Jiayi Medical Devices Co., Ltd.* (北京鳳凰佳益醫療器械有限公司), formerly known as Beijing Phoenix Luoke Medical Technology Co., Ltd.* (北京鳳凰洛克醫學技術有限公司) and Phoenix Wanfeng Medical Technology (Beijing) Co., Ltd.* (鳳凰萬峰醫學技術(北京)有限公司), a limited liability company established under the laws of the PRC, and an indirect wholly-owned subsidiary of the Company
“Beijing Juxin Wantong”	Beijing Juxin Wantong Investment Co., Ltd.* (北京聚信萬同投資有限公司), formerly known as Phoenix United Hospital Management (Beijing) Co., Ltd.* (鳳凰聯盟醫院管理(北京)有限公司) and Phoenix Healthcare Investment Management (Beijing) Co., Ltd.* (鳳凰醫療投資管理(北京)有限公司), a limited liability company established under the laws of the PRC, and a direct wholly-owned subsidiary of Beijing Wantong
“Beijing Phoenix”	Beijing Phoenix United Hospital Management Consulting Co. Ltd.* (北京鳳凰聯合醫院管理諮詢有限公司), formerly known as Beijing Phoenix United Hospital Management Co., Ltd.* (北京鳳凰聯合醫院管理有限公司) and Beijing Phoenix United Hospital Management Joint Stock Co., Ltd.* (北京鳳凰聯合醫院管理股份有限公司), a limited liability company established under the laws of the PRC, and an indirect wholly-owned subsidiary of the Company

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## DEFINITIONS

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“Beijing Wanrong”	Beijing Wanrong Yikang Medical Pharmaceutical Co., Ltd.* (北京萬榮億康醫藥有限公司), a limited liability company established under the laws of the PRC, and an indirect wholly-owned subsidiary of the Company
“Beijing Wantong”	Beijing Phoenix Wantong Investment Management Co., Ltd.* (北京鳳凰萬同投資管理有限公司), formerly known as Phoenix Hospital Management (Beijing) Co., Ltd.* (鳳凰醫院管理(北京)有限公司), a limited liability company established under the laws of the PRC, and wholly-owned by Ms. Xu Jie and Ms. Xu Xiaojie
“Board”	the board of Directors
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Company”	Phoenix Healthcare Group Co. Ltd (鳳凰醫療集團有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration Shares”	has the meaning as defined in the Acquisition Circular
“CCT(s)”	the approval of the Yan Hua IOT Agreement, the extension of the PMM Sales Framework Agreement and the approval of the proposed annual caps in relation to the Yan Hua IOT Agreement and the PMM Sales Framework Agreement and the transactions contemplated thereunder
“CCT Announcement”	the announcement of the Company dated July 8, 2016 in relation to, among other things, (i) the Yan Hua IOT Agreement; (ii) the PMM Sales Framework Agreement; and (iii) the proposed annual caps in relation to the Yan Hua IOT Agreement and the PMM Sales Framework Agreement, which are subject to the approval by the Independent Shareholders at the EGM
“CRH Phoenix”	CRH (Phoenix Healthcare) Limited (華潤集團(鳳凰醫療)有限公司) a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Seller nominated as the allottee and holder of the Consideration Shares
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be held at E-825, Fuli Morgan Center, No. 6 Taiping Street, Xicheng District, Beijing, the PRC on Monday, 31 October, 2016 at 11:00 a.m. (or as soon thereafter as the extraordinary general meeting of the Company convened by a notice of extraordinary general meeting dated 7 October 2016 for the same day and place shall have concluded or adjourned) for the Independent Shareholders to consider and, if thought fit, approve (i) the Yan Hua IOT Agreement; (ii) the PMM Sales Framework Agreement; and (iii) the proposed annual caps in relation to the Yan Hua IOT Agreement and the PMM Sales Framework Agreement
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission from time to time or any delegate of such Executive Director
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Company comprising Mr. Kwong Kwok Kong, Ms. Cheng Hong, Mr. Sun Jianhua and Mr. Lee Kar Chung Felix, all being independent non-executive Directors, to consider the terms of each of the Yan Hua IOT Agreement and the PMM Sales Framework Agreement, and the proposed annual caps in relation thereto and to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution(s) regarding the Yan Hua IOT Agreement, the PMM Sales Framework Agreement and the proposed annual caps in relation to the Yan Hua IOT Agreement and the PMM Sales Framework Agreement
“Independent Financial Adviser” or “VMS”	VMS Securities Limited, a corporation licensed under the SFO to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Yan Hua IOT Agreement, the PMM Sales Framework Agreement and the proposed annual caps in relation to the Yan Hua IOT Agreement and the PMM Sales Framework Agreement
“Independent Shareholders”	the Shareholders, other than those who are involved in or interested in the CCTs

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## DEFINITIONS

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“Investment”	a total of RMB150 million invested by Beijing Phoenix into Yan Hua Hospital Group pursuant to the Yan Hua IOT Agreement
“Investment Repayment”	the Investment made in the past by Beijing Phoenix that Yan Hua Hospital Group has agreed to repay pursuant to the Yan Hua IOT Agreement
“IOT”	the “invest-operate-transfer” model
“Latest Practicable Date”	12 October 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Fees”	the management fees paid by Yan Hua Hospital Group to Beijing Phoenix pursuant to the Yan Hua IOT Agreement
“Ms. Xu Jie”	the Chairman of the Company and an executive Director
“Ms. Xu Xiaojie”	the daughter of Ms. Xu Jie
“Original PMM Sales Framework Agreement”	the pharmaceutical, medical device and medical consumables sales framework agreement dated November 6, 2013 entered into between Beijing Wanrong, Beijing Jiayi, Beijing Phoenix and Yan Hua Hospital Group
“PMM Sales Framework Agreement”	the Original PMM Sales Framework Agreement as supplemented by the PMM Supplemental Agreement
“PMM Supplemental Agreement”	the supplemental agreement dated July 8, 2016 entered into between Beijing Wanrong, Beijing Jiayi, Beijing Phoenix and Yan Hua Hospital Group, in relation to the extension of the term of the Original PMM Sales Framework Agreement
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s of Republic of China and Taiwan
“Prospectus”	the prospectus of the Company dated November 18, 2013 issued by the Company in relation to the listing of its Shares on the Main Board of the Stock Exchange

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## DEFINITIONS

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“Seller”	China Resources Healthcare Group Limited, a limited liability company incorporated under the laws of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) with a par value of HK\$0.00025 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers issued by the Securities and Futures Commission, as amended from time to time
“Whitewash Waiver”	the whitewash waiver as may be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of CRH Phoenix to make a mandatory general offer for all the issued Shares other than those already owned or agreed to be acquired by the Seller and parties acting in concert with it as a result of the Company allotting and issuing the Consideration Shares
“Yan Hua Hospital”	Yan Hua Hospital* (北京燕化醫院), a not-for-profit hospital established under the laws of the PRC in 1973 and sponsored by Yan Hua Phoenix, which the Company started to manage and operate in February 2008 pursuant to the Yan Hua IOT Agreement
“Yan Hua Hospital Group”	collectively, Yan Hua Hospital and 10 community clinics affiliated with Yan Hua Hospital
“Yan Hua IOT Agreement”	collectively, the hospital management right and investment framework agreement dated February 1, 2008, and the hospital investment management agreement dated February 4, 2008, both of which were supplemented in April 2008, December 2010, June 2011, June 2013, July 2013, September 2013 and October 2013, and were entered into between Beijing Phoenix, Yan Hua Hospital Group and Yan Hua Phoenix

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## DEFINITIONS

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“Yan Hua Phoenix”	Beijing Yan Hua Phoenix Healthcare Asset Management Co., Ltd.* (北京燕化鳳凰醫療資產管理有限公司), a limited liability company established under the laws of the PRC, and a direct wholly-owned subsidiary of Beijing Juxin Wantong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	percent.

\* *For identification purpose only*



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## LETTER FROM THE BOARD

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PHOENIX  
HEALTHCARE  
GROUP  
凤凰医疗集团

### Phoenix Healthcare Group Co. Ltd 鳳凰醫療集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1515)**

*Executive Directors:*

Ms. Xu Jie (*Chairman of the Board*)  
Mr. Liang Hongze (*Chief Executive Officer*)  
Mr. Zhang Xiaodan (*Executive General Manager*)  
Mr. Xu Zechang (*Deputy General Manager*)  
Mr. Jiang Tianfan (*Chief Financial Officer*)  
Mr. Shan Baojie (*Deputy General Manager*)  
Mr. Cheng Libing (*Vice Chairman of the Board*)

*Independent Non-executive Directors:*

Mr. Kwong Kwok Kong  
Ms. Cheng Hong  
Mr. Sun Jianhua  
Mr. Lee Kar Chung Felix

*Registered Office:*

Harneys Services (Cayman) Limited  
4th Floor, Harbour Place  
103 South Church Street  
PO Box 10240  
Grand Cayman, KY1-1002  
Cayman Islands

*Headquarter and principal place  
of business in the PRC:*

E-825, No. 6 Taiping Street  
Xicheng District  
Beijing 100050  
P.R.C.

*Principal place of business  
in Hong Kong:*

Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

14 October 2016

*To the Shareholders,*

Dear Sir or Madam,

- (1) CONTINUING CONNECTED TRANSACTIONS AND SPECIAL DEALS  
UNDER YAN HUA IOT AGREEMENT  
(2) CONTINUING CONNECTED TRANSACTIONS  
AND SPECIAL DEALS  
UNDER PMM SALES FRAMEWORK AGREEMENT  
AND  
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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## LETTER FROM THE BOARD

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### INTRODUCTION

Reference is made to the CCT Announcement, the Acquisition Announcement and the Acquisition Circular.

Given that (i) the annual caps in relation to the Yan Hua IOT Agreement expired on December 31, 2015 and (ii) the Original PMM Sales Framework Agreement will expire on November 5, 2016 and the annual caps in relation thereto expired on December 31, 2015, the Group intends to continue the arrangements contemplated thereunder by (a) renewing the annual caps for the three financial years ending December 31, 2018 in relation to the Yan Hua IOT Agreement and (b) extending the term of the Original PMM Sales Framework Agreement and renewing the annual caps for the three financial years ending December 31, 2018 in relation thereto, subject to the approval by the Independent Shareholders at the EGM.

The transactions contemplated under the Yan Hua IOT Agreement and the PMM Sales Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. In addition, due to the application for the Whitewash Waiver by the Seller pursuant to the Acquisition Agreement and as the CCTs are not capable of being extended to all Shareholders, the CCTs also constitute special deals under Rule 25 of the Takeovers Code which require the consent of the Executive. The Company has made an application to the Executive for the consent to proceed with the CCTs and such consent, if granted, will normally be conditional upon the Independent Financial Adviser publicly stating in its opinion that the terms of the CCTs are fair and reasonable and the approval of the Independent Shareholders having been obtained by way of a poll at the EGM.

The purpose of this circular is to provide you with, among other things, (i) a letter from the Board setting out details of the Yan Hua IOT Agreement, the PMM Sales Framework Agreement and the proposed annual caps in relation to the Yan Hua IOT Agreement and the PMM Sales Framework Agreement; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) a notice of the EGM; and (v) other information required under the Listing Rules and the Takeovers Code.

### (A) YAN HUA IOT AGREEMENT

As disclosed in the Prospectus, pursuant to the Yan Hua IOT Agreement entered into between Beijing Phoenix, Yan Hua Hospital Group and Yan Hua Phoenix, Beijing Phoenix has agreed to (i) pay Yan Hua Phoenix an amount of RMB72 million (the “**Consideration**”) and (ii) invest the Investment of a total of RMB150 million by tranches into Yan Hua Hospital Group prior to 2015, in exchange for the right to manage Yan Hua Hospital, to receive the Management Fees from Yan Hua Hospital Group until July 17, 2055, and to support the long-term development of Yan Hua Hospital Group. The term of the Yan Hua IOT Agreement is subject to approval by the Independent Shareholders every three years.

As the original annual caps under the Yan Hua IOT Agreement expired on December 31, 2015, and given the term of the Yan Hua IOT Agreement is subject to approval by the Independent Shareholders every three years and the significant contribution of the Management Fees contributes to the source of revenue of the Group, the Company intends to continue the arrangements contemplated thereunder and proposes to renew the annual caps for the three financial years ending December 31, 2018.

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## LETTER FROM THE BOARD

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The terms of the Yan Hua IOT Agreement remain unchanged and the principal terms of the Yan Hua IOT Agreement are as follows:

**(1) Date:**

February, 2008

**(2) Parties:**

- (i) Beijing Phoenix;
- (ii) Yan Hua Hospital Group; and
- (iii) Yan Hua Phoenix.

**(3) Term**

The term of the Yan Hua IOT Agreement is from February 1, 2008 to July 17, 2055, which is subject to approval by the Independent Shareholders every three years.

**(4) Nature and scope of transaction**

Pursuant to the Yan Hua IOT Agreement, Beijing Phoenix has agreed to:

- (i) pay Yan Hua Phoenix the Consideration of an amount of RMB72 million, which was paid by Beijing Phoenix prior to 2011 for the right to manage Yan Hua Hospital and to receive the Management Fees from Yan Hua Hospital Group until July 17, 2055; and
- (ii) invest the Investment of a total of RMB150 million into Yan Hua Hospital Group prior to 2015 to support the long-term development of Yan Hua Hospital Group. As at the Latest Practicable Date, Beijing Phoenix had made an aggregate of RMB150 million of the Investment.

Pursuant to the Yan Hua IOT Agreement and as disclosed in the Prospectus, certain services were provided to Yan Hua Hospital Group, including management and consulting services, brand building, financial support, human resources and academic research support, and improvement of medical facilities and information technology systems. Yan Hua Hospital and Yan Hua Phoenix have agreed not to negotiate with any third party regarding hospital management services without the Group's prior consent.

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**LETTER FROM THE BOARD**

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**(5) Original annual caps and historical transaction amounts**

The table below sets out (i) the original annual caps, and (ii) the historical transaction amounts in respect of the Management Fees and the Investment Repayment under the Yan Hua IOT Agreement for the three financial years ended December 31, 2015:

	<b>For the financial year ended December 31, 2013 (RMB)</b>	<b>For the financial year ended (revised) December 31, 2014 (RMB)</b>	<b>For the financial year ended December 31, 2015 (RMB)</b>
Original annual caps on the Management Fees	16 million	36 million	33.8 million
Original annual caps on the Investment Repayment	1.8 million	2.0 million	3.6 million
Total original annual caps on the Management Fees and the Investment Repayment	17.8 million	38 million	37.4 million
Historical transaction amounts on the Management Fees	21.2 million	30.1 million	31.8 million
Historical transaction amounts on the Investment Repayment	1.8 million	2.0 million	3.6 million
Total historical transaction amounts on the Management Fees and the Investment Repayment	23 million	32.1 million	35.4 million

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## LETTER FROM THE BOARD

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### (6) Proposed annual caps

The Company estimates that the proposed annual caps for the Management Fees and the Investment Repayment under the Yan Hua IOT Agreement for the three financial years ending December 31, 2018 as follows:

	For the financial year ending December 31, 2016	For the financial year ending December 31, 2017	For the financial year ending December 31, 2018
Annual cap on the Management Fees	RMB39.9 million	RMB47.3 million	RMB55.7 million
Annual cap on the Investment Repayment	RMB3.6 million	RMB3.6 million	RMB3.6 million
Total	RMB43.5 million	RMB50.9 million	RMB59.3 million

Since January 1, 2016 and up to the Latest Practicable Date, the transaction amounts which have been incurred under the Yan Hua IOT Agreement is RMB15.5 million all of which are account receivables under the allowable credit period, and the Company did not receive any cash payment under the Yan Hua IOT Agreement during such period.

#### *Basis of determination*

The proposed annual caps on the Investment Repayment under the Yan Hua IOT Agreement have been determined with reference to the expected Investment Repayment amounts for each of the three financial years ending December 31, 2018, being RMB3.6 million. The proposed annual caps on the Management Fees under the Yan Hua IOT Agreement for the three years ending December 31, 2018 have been determined with reference to:

- (i) the total historical transaction amounts on the Management Fees as set out above;
- (ii) the historical annual caps on the Management Fees as set out above and the high percentages of utilization of the annual caps for the three financial years ended December 31, 2015, being 129.2%, 84.5% and 94.7% respectively; and
- (iii) the expected growth and expansion of operations of Yan Hua Hospital Group, taking into account:
  - the average yearly growth rate of approximately 6.5% in inpatient visit of Yan Hua Hospital Group for the three financial years ended December 31, 2015 and the approximately 12.4% increase in inpatient visit for the six months ended June 30, 2016 as compared with the same period of 2015;

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## LETTER FROM THE BOARD

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- the average yearly growth rate of approximately 5.4% in outpatient visit of Yan Hua Hospital Group for the three financial years ended December 31, 2015 and the approximately 5.7% increase in outpatient visit for the six months ended June 30, 2016 as compared with the same period of 2015;
- the average yearly growth rate of approximately 6.4% in the average spending per inpatient visit of Yan Hua Hospital Group for the three financial years ended December 31, 2015 and the approximately 2.9% increase in the average spending per inpatient visit for the six months ended June 30, 2016 as compared with the same period of 2015;
- the average yearly growth rate of approximately 2.4% in the average spending per outpatient visit of Yan Hua Hospital Group for the three financial years ended December 31, 2015 and the approximately 6.4% increase in the average spending per outpatient visit for the six months ended June 30, 2016 as compared with the same period of 2015;
- Yan Hua Hospital Group established a new tumor treatment center in 2016 to provide specialized tumor treatment services, including screening test, immune cell therapy and multi-discipline treatment. The new tumor treatment center will utilize the Grade III hospital facilities, cooperate with internally renowned experts and introduce the latest technology, which will attract more patients and further boost up the revenue of Yan Hua Hospital Group. In addition, Yan Hua Hospital will further its collaboration with the medical institutions in the surrounding areas and to expand its geographical coverage and service capacity. As such, Yan Hua Hospital Group is expected to record annual increases of approximately 5~7% and 15~20% for the number of outpatient visits and the number of inpatient visits respectively for the three financial years ending December 31, 2018; and
- Yan Hua Hospital Group intends to introduce more new treatment therapies and pharmaceuticals and expects to record higher annual growth of approximately 8~10% in the average spending per patient visit for the three financial years ending December 31, 2018 than the previous years.

Having considered the development trend and future prospects of Yan Hua Hospital Group and taking into account the factors set out above, the Directors (excluding the independent non-executive Directors whose views are set out in the section headed “Letter from the Independent Board Committee” in this circular) are of the view that the proposed annual caps under the Yan Hua IOT Agreement are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### *Management Fee Structure*

Details of the Management Fee Formula (as defined below) remain unchanged as follows:

Pursuant to the Yan Hua IOT Agreement and as disclosed in the Prospectus, the Group is entitled to receive the Management Fees from Yan Hua Hospital Group for the services provided under the Yan Hua IOT Agreement. The calculation of annual Management Fees is based on the following formula (the “**Management Fee Formula**”): a fixed percentage of the first RMB150 million of the annual revenue of Yan Hua Hospital Group (the “**Base Management Fee**”) (which will be paid in one lump sum at the end of each year), *plus* a higher fixed percentage of the annual revenue in excess of RMB150 million (the “**Incentive Fee**”) (which is estimated and prepaid on a quarterly basis) *less* the amount of the relevant Investment Repayment (which will be repaid to us in equal annual installments over the tenure of management). The Management Fee Formula, the Consideration and the Investment are all part of the key terms under the Yan Hua IOT Agreement pursuant to which the Group acquired the right to manage Yan Hua Hospital Group until July 17, 2055. In determining the Management Fee Formula, the Company has taken into account:

- (i) the expected costs of the Group (including labour costs and administrative costs) for providing the management services to Yan Hua Hospital Group;
- (ii) the investment return for the Group on the Consideration of RMB72 million and the Investment of RMB150 million; and
- (iii) the expected growth and prospects of Yan Hua Hospital Group.

For the three years ended December 31, 2015, the annual Management Fees are approximately 3~5% of the annual revenue of Yan Hua Hospital Group.

The term of the Yan Hua IOT Agreement, which is subject to approval by the Independent Shareholders every three years, would not affect the Investment Repayment schedule. In any given period, the Management Fees that the Company is entitled to should not exceed the Yan Hua Hospital Group’s net income before taxation and the Investment Repayment. At the end of each year, after the total Management Fees have been determined based on Yan Hua Hospital Group’s results of operations, the quarterly Incentive Fee that have already been paid in that year are credited towards such amount, and any remaining balance is settled between Yan Hua Hospital Group and the Group. If the total amount of the Base Management Fee and the Incentive Fee is lower than the aggregate amount of the quarterly Incentive Fees that have already been paid in that year, the Group is obligated to return the excess amount to Yan Hua Hospital Group. Pursuant to the Yan Hua IOT Agreement, Beijing Phoenix has agreed to compensate Yan Hua Hospital Group for losses incurred by Yan Hua Hospital Group in any calendar year such that Yan Hua Hospital would break even in that calendar year by setting off the compensation against the Management Fees in that calendar year. If the Management Fees in that year are insufficient, the compensation will be set off against the Management Fees in subsequent years until the loss is fully compensated. As at the Latest Practicable Date, Beijing Phoenix has not paid any such compensation to Yan Hua Hospital Group. Yan Hua Hospital Group has entered into an undertaking to Beijing Phoenix dated November 18, 2013 that it will not enforce the right to loss top-up payment from Beijing Phoenix as long as the Yan Hua IOT Agreement remains in force.

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## LETTER FROM THE BOARD

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As disclosed in the Prospectus, the Group allows a credit period of 90 days to 180 days for the hospital management services to Yan Hua Hospital Group.

### *Consideration, Investment amounts and Investment Repayment*

As at the Latest Practicable Date, the Consideration had been paid in full. The carrying amount of such initial investment (the “**Carrying Amount**”) under the Yan Hua IOT Agreement is determined as if the Consideration is amortized equally over the IOT term of 48 years. Yan Hua Phoenix has undertaken to reimburse Beijing Phoenix the Carrying Amount upon termination or discontinuation of the Yan Hua IOT Agreement. Ms. Xu Jie and Ms. Xu Xiaojie have jointly and severally guaranteed the performance of the above undertaking. As at the Latest Practicable Date, the carrying amount of the intangible assets related to the initial investment for acquisition of the management right of Yan Hua Hospital paid to Yan Hua Phoenix was approximately RMB169 million.

Beijing Phoenix had made the Investment, which is repayable, in Yan Hua Hospital Group of an aggregate amount of RMB150 million as at the Latest Practicable Date.

Pursuant to the Yan Hua IOT Agreement, Beijing Phoenix agreed to invest the Investment of a total amount of RMB150 million by tranches into Yan Hua Hospital Group. Each tranche of the Investment that is paid will be repaid by Yan Hua Hospital Group to Beijing Phoenix in equal installments annually from the year after the payment until the end of the term of the Yan Hua IOT Agreement. Beijing Phoenix has paid all the Investment prior to 2015 and the amount of the Investment Repayment since 2015 is RMB3.6 million each year. For the three financial years ended December 31, 2015 and as at the Latest Practicable Date, the aggregate amount of Investment Repayment made by Yan Hua Hospital Group was approximately RMB7.4 million. The discontinuation or termination of the Yan Hua IOT Agreement would not affect the Investment Repayment schedule.

### *Loss top-up obligations*

Details of the loss top-up obligations remain unchanged as follows:

As disclosed in the Prospectus, pursuant to the Yan Hua IOT Agreement, Beijing Phoenix had agreed to compensate Yan Hua Hospital Group of any losses incurred by Yan Hua Hospital Group in any calendar year such that Yan Hua Hospital Group would break even in that calendar year by setting off the compensation against the Management Fees in that calendar year. If the Management Fees in that year is insufficient, the compensation will be set off against the Management Fees in subsequent years until the loss is fully compensated.

As at the Latest Practicable Date, Beijing Phoenix had not paid any such compensation to Yan Hua Hospital. In any event, Yan Hua Hospital Group and Yan Hua Phoenix have signed an undertaking dated the date of the Prospectus that they will not enforce any loss top-up payment from Beijing Phoenix for as long as the Yan Hua IOT Agreement remains in force.



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## LETTER FROM THE BOARD

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### **(7) Yan Hua Hospital Group's executive committee**

As disclosed in the Prospectus, Yan Hua Hospital's executive committee (燕化醫院集團理事會) consists of five members, four of whom are appointed by Yan Hua Phoenix and one of whom is elected by an employee committee (職工代表大會). The executive committee exercises key decision-making powers over important business decisions at Yan Hua Hospital Group, such as the approval of annual hospital budgets and major investments, the establishment of new departments and the hiring of key personnel. Each member of the executive committee has one vote. Matters before the executive committee are decided by a simple majority of the executive committee. For more details, please refer to section headed "Relationship with Our Controlling Shareholders – Non-voting and Non-competition Undertakings" in the Prospectus.

### **(8) Termination of the Yan Hua IOT Agreement**

Details of the termination provisions under the Yan Hua IOT Agreement remain unchanged as follows:

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

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

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

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

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## LETTER FROM THE BOARD

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- Yan Hua Hospital Group does not pay the Group the Management Fees on time.

The Yan Hua IOT Agreement may also be terminated with the parties' consent. The Group does not anticipate termination of the Yan Hua IOT Agreement in the near future.

### **(B) PMM SALES FRAMEWORK AGREEMENT**

As disclosed in the CCT Announcement, on July 8, 2016, Beijing Wanrong, Beijing Jiayi, Beijing Phoenix and Yan Hua Hospital Group entered into the PMM Supplemental Agreement to extend the term of the Original PMM Sales Framework Agreement until December 31, 2018. Pursuant to the PMM Supplemental Agreement, save for the extension of its term, other terms of the Original PMM Sales Framework Agreement remain unchanged.

As the Original PMM Sales Framework Agreement will expire on November 5, 2016 and the original annual caps in relation thereto expired on December 31, 2015, the Group intends to continue the arrangement contemplated thereunder by extending the term of the Original PMM Sales Framework Agreement and renewing the annual caps for the three financial years ending December 31, 2018 in relation thereto. The extension of the term of the Original PMM Sales Framework Agreement and the renewal of the annual caps can allow the Group to generate supply chain business revenue and benefit.

Save for the extension of its term, other terms of the Original PMM Sales Framework Agreement remain unchanged and the principal terms of the PMM Sales Framework Agreement are as follows:

#### **(1) Date of the PMM Supplemental Agreement:**

July 8, 2016

#### **(2) Parties:**

- (i) Beijing Wanrong;
- (ii) Beijing Jiayi;
- (iii) Beijing Phoenix; and
- (iv) Yan Hua Hospital Group.

#### **(3) Term**

The term is extended until December 31, 2018 pursuant to the PMM Supplemental Agreement.

#### **(4) Nature and scope of transaction**

The PMM Supplemental Agreement was entered into to extend the term of the Original PMM Sales Framework Agreement until December 31, 2018, pursuant to which and as disclosed in the Prospectus, Beijing Wanrong and Beijing Jiayi have agreed to supply, and Yan

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## LETTER FROM THE BOARD

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Hua Hospital Group has agreed to purchase, pharmaceuticals, medical device and medical consumables on a recurring basis. Under such sales arrangement, Yan Hua Hospital Group places purchase orders for pharmaceuticals, medical device and medical consumables to Beijing Wanrong and Beijing Jiayi from time to time and Beijing Wanrong and Beijing Jiayi fulfill the orders by selling the products to Yan Hua Hospital Group at a price equal to the “bidding price” of the products fixed by the PRC regulators or the prevailing market price.

### (5) Original annual caps and historical transaction amounts

The table below sets out (i) the original annual caps, and (ii) the historical transaction amounts under the Original PMM Sales Framework Agreement for the three financial years ended December 31, 2015:

	<b>For the financial year ended December 31, 2013 (RMB)</b>	<b>For the financial year ended December 31, 2014 (RMB)</b>	<b>For the financial year ended December 31, 2015 (RMB)</b>
Original annual caps	200 million	260 million	330 million
Historical transaction amounts	145.2 million	230.2 million	248.6 million

### (6) Proposed annual caps

The Company estimates that the proposed annual caps under the PMM Sales Framework Agreement for the three financial years ending December 31, 2018 as follows:

	<b>For the financial year ending December 31, 2016</b>	<b>For the financial year ending December 31, 2017</b>	<b>For the financial year ending December 31, 2018</b>
Annual cap	RMB400.8 million	RMB570.7 million	RMB713.5 million

Since January 1, 2016 and up to the Latest Practicable Date, the transaction amounts have been incurred under the PMM Sales Framework Agreement is RMB135 million, of which RMB48 million are account receivables under the credit term of 60 days to 120 days provided by the Company to Yan Hua Hospital Group, and RMB87 million are cash payments received from Yan Hua Hospital Group to the Company. However, as agreed between Yan Hua Hospital Group and the Company, such cash payments of RMB87 million shall be fully refunded and returned to Yan Hua Hospital Group should the Independent Shareholders’ approval on the continuing connected transaction as contemplated under the PMM Sales Framework Agreement have not been obtained at the EGM.

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## LETTER FROM THE BOARD

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### *Basis of determination*

The proposed annual caps under the PMM Sales Framework Agreement for the three years ending December 31, 2018 have been determined with reference to:

- (i) the total historical transaction amounts as set out above;
- (ii) the percentages of utilization of the annual caps under the PMM Sales Framework Agreement for the three financial years ended December 31, 2015, being 72.6%, 88.5% and 75.3% respectively, due to the lower than expected total purchases by Yan Hua Hospital Group sourced from Beijing Wanrong and Beijing Jiayi;
- (iii) the expected increase in total purchases from all suppliers by Yan Hua Hospital Group from approximately RMB427 million, RMB468 million and RMB520 million for the three financial years ended December 31, 2015 to approximately RMB651 million, RMB777 million and RMB922 million for the three financial years ending December 31, 2018, taking into account:
  - the average yearly growth rate of approximately 6.5% in inpatient visit of Yan Hua Hospital Group for the three financial years ended December 31, 2015 and the approximately 12.4% increase in inpatient visit for the six months ended June 30, 2016 as compared with the same period of 2015;
  - the average yearly growth rate of approximately 5.4% in outpatient visit of Yan Hua Hospital Group for the three financial years ended December 31, 2015 and the approximately 5.7% increase in outpatient visit for the six months ended June 30, 2016 as compared with the same period of 2015;
  - In view of the new tumor treatment center and further collaboration with the medical institutions in the surrounding areas, Yan Hua Hospital Group is expected to record annual increases of approximately 5~7% and 15~20% for the number of outpatient visits and the number of inpatient visits respectively for the three financial years ending December 31, 2018;
  - the expected purchase of pharmaceuticals and medical device for tumor treatment for the newly established tumor treatment center of Yan Hua Hospital Group, which are far more expensive than pharmaceuticals and medical device for other diseases; and
  - the plan of Yan Hua Hospital Group to have the Group as its main supply channel so as to enjoy bulk purchase discounts and to increase procurement from the Group from approximately 40% to 60% for the three years ended December 31, 2015 to approximately 70% to 90% for the three years ending December 31, 2018.

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## LETTER FROM THE BOARD

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Having considered the expected increase in the total purchases by Yan Hua Hospital Group as set out above, the Directors (excluding the independent non-executive Directors whose views are set out in the section headed “Letter from the Independent Board Committee” in this circular) are of the view that the proposed annual caps under the PMM Sales Framework Agreement are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

As disclosed in the Prospectus, the Group allows a credit period of 60 days to 120 days for the sales of pharmaceutical, medical devices and consumables to Yan Hua Hospital Group.

### *Pricing term*

The price for the pharmaceuticals and medical consumables supplied under the PMM Sales Framework Agreement shall be determined in accordance with the “bidding price” of such product prescribed by the National Development and Reform Commission, National Health and Family Planning Commission and the local branch of the Ministry of Health, if applicable. If there is no such prescribed “bidding price” for the particular product, the price shall be determined based on arm’s length negotiation between the parties and with reference to the then prevailing market price as indicated by the invoices provided by Beijing Wanrong or Beijing Jiayi for its supply of the particular product to at least three hospitals with similar grade.

The price for the medical device supplied under the PMM Sales Framework Agreement shall be determined based on arm’s length negotiation between the parties and with reference to the then prevailing market price as indicated by the invoices provided by Beijing Wanrong or Beijing Jiayi for its supply of the particular product to at least three hospitals with similar grade.

The sales department of Beijing Wanrong and Beijing Jiayi will monitor the pricing for pharmaceuticals and medical consumables without prescribed “bidding price” and medical device and ensure that the agreed prices are fair and reasonable.

### **INTERNAL CONTROL AND RISK MANAGEMENT MEASURES**

The original annual caps in relation to the Yan Hua IOT Agreement and the Original PMM Sales Framework Agreement expired on December 31, 2015 and, due to the Company’s inadvertent oversight, were not renewed in a timely manner. To avoid any similar non-compliance of the connected transaction requirements under Chapter 14A of the Listing Rules the following measures have been implemented in order to strengthen its reporting and internal control procedures ensure and safeguard that the CCTs will not be prejudicial to the interests of the Company and the Shareholders as a whole:

- The Group has implemented a series of Group-wide management policies controlled by multiple departments to improve corporate governance structure and monitor the implementation of internal control policies, including financial control system, anti-fraud and legal monitoring system, operations and compliance management system, risk management and assessment policies and internal audit rules;

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## LETTER FROM THE BOARD

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- The Group's finance and auditing department has followed financial internal control regulations to establish careful annual cap calculations based on historical transaction data between Yan Hua Hospital Group and the Group for reasonable and practical forecasting;
- The Group's legal team has strictly followed internal legal protocols in reviewing the Yan Hua IOT Agreement and the PMM Sales Framework Agreement to ensure no prejudice is caused to the Company and its Shareholders as a whole;
- The Group's operation and compliance department has been supervising the operation and execution of the Yan Hua IOT Agreement and the PMM Sales Framework Agreement to ensure anti-fraud and legal compliance;
- The Board and senior management of the Group are responsible for continuous supervision of the operation under the Yan Hua IOT Agreement and the PMM Sales Framework Agreement in order to protect the interests of the Company and the Shareholders as a whole;
- The independent non-executive Directors has conducted and will continue to conduct annual review on the continuing connected transactions to ensure that the transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms and no less favorable to the Company than those available to or (if applicable) from independent third parties, and the relevant terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole;
- The auditors of the Company will also conduct an annual review on the annual caps of the continuing connected transactions;
- The Board has reviewed and will continue to review, on a regular basis, the Company's internal control procedures in respect of the monitoring of all transactions, including but not limited to (a) reviewing and assessing in a timely manner the existing continuing connected transactions which are required to be disclosed under the Listing Rules, in particular to renew the Yan Hua IOT Agreement and the PMM Sales Framework Agreement or to effect a material change to their respective terms or to monitor their respective caps, and (b) upon review, considering if any appropriate actions should be taken by the Group and where necessary, the Company will seek advice from the professional advisers (including but not limited to the company secretarial service provider, auditors, and legal advisers) as soon as practicable;
- An independent professional adviser will be retained as soon as practicable to conduct a thorough review of and make recommendations to improve the Company's internal controls to ensure compliance with the Listing Rules;
- An independent compliance adviser (as defined in Chapter 3A of the Listing Rules) will be appointed as soon as practicable for consultation regarding compliance with the Listing Rules on an ongoing basis for two years; and

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## LETTER FROM THE BOARD

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- The Group has strengthened the communication between the senior management of the Company and the professional advisers on an on-going basis for ensuring the Company is in compliance with the relevant requirements as set out in the Listing Rules, and the relevant laws and regulations in respect of the continuing connected transactions.

### INFORMATION ABOUT THE GROUP

The Company is a limited liability company incorporated in the Cayman Islands and its Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the provision of general hospital services, hospital management services and the supply chain business in Beijing.

### INFORMATION ABOUT YAN HUA HOSPITAL GROUP

Yan Hua Hospital Group includes Yan Hua Hospital, a not-for-profit and the only Grade III general hospital in the Fangshan District of Beijing, Xingcheng Hospital, a branch of Yan Hua Hospital, and 17 community clinics, primarily serving residents in the Fangshan District. Yan Hua Hospital has remained a not-for-profit medical institution after its privatization, as it is accredited as a regional medical center by the Fangshan District government and is entrusted with significant public health and contingency planning responsibilities. Yan Hua Hospital is a Medical Insurance Designated Medical Institution in Beijing.

The sponsor for Yan Hua Hospital is Yan Hua Phoenix, which is a direct wholly-owned subsidiary of Beijing Juxin Wantong. Beijing Juxin Wantong is a direct wholly-owned by Beijing Wantong, which is in turn direct wholly-owned by Ms. Xu Jie, the Chairman of the Company and an executive Director, and Ms. Xu Xiaojie, daughter of Ms. Xu Jie.

### REASONS FOR AND BENEFITS OF THE TRANSACTIONS CONTEMPLATED UNDER BOTH THE YAN HUA IOT AGREEMENT AND THE PMM SALES FRAMEWORK AGREEMENT

As an integral part and a major hospital of the Group's healthcare services network, Yan Hua Hospital Group plays an important and crucial role in creating synergies, improving efficiency, enhancing standardization and quality, and improving profitability of the Group's healthcare services. The Yan Hua IOT Agreement and the PMM Sales Framework Agreement serve as a key bonding between Yan Hua Hospital Group and the Group to ensure long-term cooperation.

The Yan Hua IOT Agreement entitles the Group to significant control and influence over Yan Hua Hospital Group's management and development strategy, which allows sharing of medical equipments, facilities, technologies, human resources, and other resources between Yan Hua Hospital Group and the Group's other medical institutions. The Management Fees received from Yan Hua Hospital Group under the Yan Hua IOT Agreement contribute as a significant source of revenue to the Group and also allow the Group to generate hospital supply chain revenue through access to the control, consolidate and manage of the procurement of Yan Hua Hospital Group.

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## LETTER FROM THE BOARD

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The PMM Sales Framework Agreement enables the Group to coordinate and manage the procurement and logistics of pharmaceutical, medical devices and medical consumables and equipments to Yan Hua Hospital Group, which allows the Group to generate supply chain business revenue and benefit in the following aspects:

1. Procurement from Yan Hua Hospital Group under the PMM Sales Framework Agreement is a significant source of revenue for the Group;
2. Syndicating procurement orders from Yan Hua Hospital Group and our other in-network hospitals greatly improve the Group's bargaining power in procurement with the suppliers, which reduces overall prices and total cost of goods sold of the procurement, thereby generating higher profit margin for the Group's supply chain business;
3. Centralization of procurement management at the Group level reduces the management costs and workload of the procurement staff and professionals for the Group and all our in-network hospitals as a whole; and
4. A stable and long term procurement arrangement between Yan Hua Hospital Group and the Group helps to establish long term relationship and commitment between the Group and its suppliers, which ensures stable quality and competitive prices of the procurement, and also secures optimal follow-up maintenance, training, services and support from the suppliers.

In order to ensure continuous sustainable economic benefits of the Group from managing and operating Yan Hua Hospital Group, the Company therefore proposes to revise and increase the respective annual caps under the Yan Hua IOT Agreement and the PMM Sales Framework Agreement, which would both ensure long term growth of the Group that are in the best interests of the Company and its Shareholders as a whole.

Having considered the above reasons and taking into account the basis of determination of all the proposed annual caps, the Directors (excluding the independent non-executive Directors whose views are set out in the section headed "Letter from the Independent Board Committee" in this circular, after considering the advice from the Independent Financial Adviser) are of the view that (a) the terms of each of the Yan Hua IOT Agreement and the PMM Sales Framework Agreement; (b) the extension of the PMM Sales Framework Agreement; and (c) all the proposed annual caps are fair and reasonable, have been entered into after arm's length negotiation, are on normal commercial terms and in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

Ms. Xu Jie, the Chairman of the Company and an executive Director, who together with her daughter, Ms. Xu Xiaojie, indirectly owns the entire equity interest in the sponsor for Yan Hua Hospital Group, has abstained from voting on the relevant resolutions in the Board meeting to approve each of the Yan Hua IOT Agreement and the PMM Sales Framework Agreement and the proposed annual caps in relation to them. All the remaining Directors have confirmed in such Board meeting that they have no material interest in the transactions contemplated under each of the Yan Hua IOT Agreement and the PMM Sales Framework Agreement.



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## LETTER FROM THE BOARD

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### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the sponsor for Yan Hua Hospital is Yan Hua Phoenix, which is a direct wholly-owned subsidiary of Beijing Juxin Wantong. Beijing Juxin Wantong is wholly-owned by Beijing Wantong, which in turn is wholly-owned by Ms. Xu Jie, the Chairman of the Company and an executive Director, and Ms. Xu Xiaojie, daughter of Ms. Xu Jie. Thus, Yan Hua Phoenix and Yan Hua Hospital Group are connected persons of the Company as defined under the Listing Rules. As at the Latest Practicable Date, Ms. Xu Jie was interested in 13,868,000 Shares (representing 1.66% of the issued share capital of the Company), Ms. Xu Xiaojie was interested in 13,590,640 Shares (representing 1.63% of the issued share capital of the Company), and Speed Key Limited, which is wholly owned by Mr. Xu Baorui, the father of Ms. Xu Jie, was interested in 181,401,360 Shares (representing 21.76% of the issued share capital of the Company).

Although all of the applicable percentage ratios under Rule 14.07 of the Listing Rules relating to the proposed annual caps under the Yan Hua IOT Agreement are less than 5%, the transactions contemplated under the Yan Hua IOT Agreement and the proposed annual caps are subject to the requirements of reporting, announcement and approval by the Independent Shareholders according to the terms of the Yan Hua IOT Agreement and as disclosed in the Prospectus. The Company will also disclose the relevant details in the next published annual report of the Company in accordance with the relevant requirements as set out in Rule 14A.71 of the Listing Rules.

As some of the applicable percentage ratios under Rule 14.07 of the Listing Rules relating to the proposed annual caps under the PMM Sales Framework Agreement are more than 5%, the transactions contemplated under the PMM Sales Framework Agreement and the proposed annual caps are subject to the requirements of reporting, announcement and approval by the Independent Shareholders under Chapter 14A of the Listing Rules. The Company will also disclose the relevant details in the next published annual report of the Company in accordance with the relevant requirements as set out in Rule 14A.71 of the Listing Rules.

### TAKEOVERS CODE IMPLICATIONS

Due to the Whitewash Waiver application, the CCTs, which are not capable of being extended to all Shareholders, constitute special deals under Rule 25 of the Takeovers Code, which require, among other things, the consent of the Executive. The Company has made an application to the Executive for the consent to proceed with the CCTs. Such consent, if granted, will be subject to (i) the Independent Financial Adviser, stating that in its opinion, the terms of each of the CCTs are fair and reasonable; and (ii) the CCTs are approved by the Independent Shareholders by way of a poll at the EGM.

The CCTs on the one hand and the Acquisition and the Whitewash Waiver on the other hand are separate transactions and are not inter-conditional. As such, if the Acquisition and the Whitewash Waiver are approved at an extraordinary general meeting to be convened and the Whitewash Waiver is granted by the Executive, the Company would proceed to completion

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## LETTER FROM THE BOARD

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of the Acquisition subject to the terms and conditions of the Acquisition Agreement irrespective of whether the CCTs are approved at the EGM. Similarly, if the Executive's consent in respect of the CCTs is granted and the CCTs are approved at the EGM, the Company would proceed with the CCTs irrespective of whether the Acquisition and the Whitewash Waiver are approved at the extraordinary general meeting to be convened.

### **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

An Independent Board Committee has been established to consider the terms of the CCTs, to advise the Independent Shareholders on whether the CCTs are in the interests of the Company and the Shareholders as a whole and whether the terms of the CCTs are on normal commercial terms and are fair and reasonable, and to make recommendations to the Independent Shareholders as to how to vote at the EGM on the ordinary resolutions approving the CCTs. Mr. Kwong Kwok Kong, Ms. Cheng Hong, Mr. Sun Jianhua and Mr. Lee Kar Chung Felix, all being independent non-executive Directors, have been appointed by the Board to serve as members of the Independent Board Committee. None of the members of the Independent Board Committee has any material interest in any of the CCTs.

VMS Securities Limited has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **EGM AND PROXY ARRANGEMENT**

The Company will convene the EGM for the Independent Shareholders to consider and, if thought fit, approve (i) the Yan Hua IOT Agreement; (ii) the PMM Sales Framework Agreement; and (iii) the proposed annual caps in relation to the Yan Hua IOT Agreement and the PMM Sales Framework Agreement. The notice of the EGM is set out on pages 49 to 51 of this circular. Pursuant to the Listing Rules and the Takeovers Code, the votes of the Independent Shareholders on the proposed ordinary resolutions approving the CCTs will be taken by way of poll at the EGM and an announcement on the poll results will be made by the Company after the EGM.

Any Shareholders who are involved in or interested in the CCTs and their respective associates and any persons acting in concert with any Shareholders who are involved in or interested in the CCTs are required to abstain from voting on the relevant resolutions at the EGM. In view of her interest in the sponsor for Yan Hua Hospital as set out in the section headed "Listing Rules Implications", Ms. Xu Jie, an executive Director, and her respective associates (as defined in the Listing Rules) and parties acting in concert with her (including Speed Key Limited, Mr. Xu Baorui and Ms. Xu Xiaojie) shall abstain from voting on the ordinary resolutions approving the CCTs at the EGM.

Mr. Liang Hongze, an executive Director and the chief executive officer of the Company, and Mr. Jiang Tianfan, an executive Director and the chief financial officer of the Company, were involved in negotiation of the Acquisition and the Whitewash Waiver and therefore were considered to be involved in the CCTs. Accordingly, Mr. Liang Hongze and Mr. Jiang Tianfan

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## LETTER FROM THE BOARD

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will abstain from voting on the resolutions approving the CCTs at the EGM, in respect of their respective shareholding interest in the Company. As at the Latest Practicable Date, Mr. Liang Hongze was interested in 26,860,912 Shares (representing 3.22% of the issued share capital of the Company) and Mr. Jiang Tianfan was interested in 10,551,648 Shares (representing 1.27% of the issued share capital of the Company).

Save as disclosed above, as at the Latest Practicable Date, no other Shareholder had any material interest in the CCTs, and no other Shareholder is required to abstain from voting at the EGM on the ordinary resolution(s) approving the CCTs.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.phg.com.cn](http://www.phg.com.cn)).

Whether or not you are able to attend the EGM, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish and in such event, the form of proxy shall be deemed to be revoked.

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 27 to 28 of this circular which contains its recommendation to the Independent Shareholders as to how to vote at the EGM on the ordinary resolutions approving the CCTs. Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 29 to 42 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the CCTs, as well as the principal factors and reasons considered by it in concluding its advice.

The Directors (including the independent non-executive Directors whose views are set out in the section headed "Letter from the Independent Board Committee" in this circular, after considering the advice from the Independent Financial Adviser) are of the view that (a) the terms of each of the Yan Hua IOT Agreement and the PMM Sales Framework Agreement; (b) the extension of the PMM Sales Framework Agreement; and (c) all the proposed annual caps in relation thereto (i) have been negotiated on an arm's length basis; (ii) determined on normal commercial terms; (iii) are entered into in the ordinary and usual course of business of the Company; and (iv) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board (including the Independent Board Committee) recommends you to vote in favour of the ordinary resolutions set out in the notice of the EGM approving the Yan Hua IOT Agreement, the PMM Sales Framework Agreement, the proposed annual caps in relation to them and the transactions contemplated thereunder at the EGM.

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**LETTER FROM THE BOARD**

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**ADDITIONAL INFORMATION**

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

Yours faithfully,  
For and on behalf of the Board  
**Phoenix Healthcare Group Co. Ltd**  
**Liang Hongze**  
*Executive Director*



PHOENIX  
HEALTHCARE  
GROUP  
凤凰医疗集团

**Phoenix Healthcare Group Co. Ltd**  
**鳳凰醫療集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 1515)**

14 October 2016

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS AND SPECIAL DEALS  
UNDER YAN HUA IOT AGREEMENT**  
**(2) CONTINUING CONNECTED TRANSACTIONS AND SPECIAL DEALS  
UNDER PMM SALES FRAMEWORK AGREEMENT**

We refer to the circular dated 14 October 2016 issued by the Company to its Shareholders (the “**Circular**”) of which this letter forms part. Capitalised terms used in this letter shall bear the same meanings as defined in the Circular unless the context otherwise requires.

Under the Listing Rules and the Takeovers Code, (i) the Yan Hua IOT Agreement; (ii) the PMM Sales Framework Agreement; and (iii) the proposed annual caps in relation to the Yan Hua IOT Agreement and the PMM Sales Framework Agreement are subject to the approval of the Independent Shareholders at the EGM.

We have been appointed as the Independent Board Committee to consider terms of each of the Yan Hua IOT Agreement and the PMM Sales Framework Agreement, and the proposed annual caps in relation to them and to advise the Independent Shareholders and make recommendations to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution(s) regarding the Yan Hua IOT Agreement, the PMM Sales Framework Agreement, the proposed annual caps in relation to them and the transactions contemplated thereunder.

VMS Securities Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board and the letter from VMS Securities Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders as set out in the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account, among other things, the advice from VMS Securities Limited, the Independent Financial Adviser, we are of the view that (a) the terms of each of the Yan Hua IOT Agreement and the PMM Sales Framework Agreement; (b) the extension of the PMM Sales Framework Agreement; and (c) all the proposed annual caps in relation thereto (i) have been negotiated on an arm's length basis; (ii) determined on normal commercial terms; (iii) are entered into in the ordinary and usual course of business of the Company; and (iv) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote at the EGM in favour of the ordinary resolution(s) regarding the Yan Hua IOT Agreement, the PMM Sales Framework Agreement, the proposed annual caps in relation to them and the transactions contemplated thereunder.

Yours faithfully,  
Independent Board Committee

**Kwong Kwok Kong**  
*Independent non-  
executive Director*

**Cheng Hong**  
*Independent non-  
executive Director*

**Sun Jianhua**  
*Independent non-  
executive Director*

**Lee Kar Chung Felix**  
*Independent non-  
executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The following is the full text of the letter of advice from the independent financial adviser, VMS Securities Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



VMS Securities Limited  
49/F, One Exchange Square  
8 Connaught Place, Central, HK  
香港中環康樂廣場 8 號交易廣場 1 期 49 樓  
Tel/電話: (852) 2996 2100  
Fax/傳真: (852) 2996 1210

14 October 2016

*To: The Independent Board Committee and  
the Independent Shareholders of  
Phoenix Healthcare Group Co. Ltd*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS AND SPECIAL DEALS UNDER YAN HUA IOT AGREEMENT AND PMM SALES FRAMEWORK AGREEMENT (THE “AGREEMENTS”)**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the CCTs, in respect of which the Independent Shareholders' approval will be sought at the EGM. Details of the Agreements and the CCTs are set in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 14 October 2016 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings in this Letter unless otherwise stated.

As at the Latest Practicable Date, Yan Hua Hospital is wholly owned by Yan Hua Phoenix, which was a directly wholly-owned subsidiary of Beijing Juxin Wantong. Beijing Juxin Wantong is directly wholly-owned by Beijing Wantong, which is in turn directly wholly-owned by Ms. Xu Jie, the Chairman of the Company and an executive Director, and Ms. Xu Xiaojie, daughter of Ms. Xu Jie. Thus, Yan Hua Phoenix and Yan Hua Hospital Group are connected persons of the Company as defined under the Listing Rules. Further, as at the Latest Practicable Date, Ms. Xu Jie is interested in 13,868,000 shares of the Company while Speed Key Limited, Ms. Xu Jie and Ms. Xu Xiaojie hold approximately 21.76%, 1.66% and 1.63% of the total issued share capital of the Company, respectively. Speed Key Limited is wholly owned by Mr. Xu Baorui, father of Ms. Xu Xiaojie.

As all of the applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) relating to the proposed annual caps under the Yan Hua IOT Agreement are less than 5%, but according to the terms of the Yan Hua IOT Agreement and as disclosed in the

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Prospectus, the transactions contemplated under the Yan Hua IOT Agreement and the proposed annual caps are subject to the requirements of reporting, announcement and approval by the Independent Shareholders under Chapter 14A of the Listing Rules. The Company will also disclose the relevant details in the next published annual report of the Company in accordance with the relevant requirements as set out in Rule 14A.71 of the Listing Rules.

As some of the applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) relating to the proposed annual caps under the PMM Sales Framework Agreement are more than 25% and each of the proposed annual caps are not less than HK\$10,000,000, the transactions contemplated under the PMM Sales Framework Agreement and the proposed annual caps are subject to the requirements of reporting, announcement and approval by the Independent Shareholders under Chapter 14A of the Listing Rules. The Company will also disclose the relevant details in the next published annual report of the Company in accordance with the relevant requirements as set out in Rule 14A.71 of the Listing Rules.

In addition, due to the application for the Whitewash Waiver by China Resources Healthcare Group Limited pursuant to the Acquisition Agreement and as the CCTs are not capable of being extended to all Shareholders, the CCTs also constitute special deals under Rule 25 of the Takeovers Code which require the consent of the Executive. The Company has made an application to the Executive for the consent to proceed with the CCTs and such consent, if granted, will normally be conditional upon the Independent Financial Adviser publicly stating in its opinion that the terms of the CCTs are fair and reasonable and the approval of the Independent Shareholders having been obtained by way of a poll at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Kwong Kwok Kong, Ms. Cheng Hong, Mr. Sun Jianhua and Mr. Lee Kar Chung Felix, has been established to consider the Agreements, the proposed annual caps in relation to the Agreements and to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution(s) regarding the Agreements and the proposed annual caps in relation to the Agreements. We, VMS Securities Limited (“**VMS Securities**”), have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, VMS Securities had no past engagement with the Company. As at the Latest Practicable Date, we were independent from and not connected with the Group under Rule 13.84 of the Listing Rules and our appointment by the Independent Board Committee is in compliance with Rule 2 of the Takeovers Code, and accordingly, qualified to give independent advice to the Independent Shareholders regarding the Agreements and the CCTs contemplated thereunder.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Group and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were provided or expressed to us and will remain so at the Latest Practicable Date. We have also assumed that all the opinions and



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representations made or provided by the executive Directors and the management of the Company contained in the Circular have been reasonably made after due and careful enquiry. In addition, we have sought and obtained confirmation from the Company, the executive Directors, and the management of the Company that no material facts have been omitted from the information provided and referred to in the Circular. Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeover Code if there arises any material changes of information previously provided to us by the Company in which event this letter shall be amended and updated. We have relied on such information and consider that the information we have received is sufficient for us to reach the opinion and recommendation set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group or Yan Hua Hospital Group, nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Agreements and the proposed annual caps in relation thereto (i) have been negotiated on an arm's length basis; (ii) are entered into in the ordinary and usual course of business of the Company; (iii) are fair and reasonable; and (iv) in the interests of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

#### 1. Background to and reasons for the CCTs

The Group is principally engaged in the provision of general hospital services, hospital management services and the supply chain business in Beijing.

As set out in the Letter from the Board, pursuant to the Yan Hua IOT Agreement entered into between Beijing Phoenix, Yan Hua Hospital Group and Yan Hua Phoenix, Beijing Phoenix has agreed to (i) pay Yan Hua Phoenix the Consideration of an amount of RMB72 million, which was fully paid by Beijing Phoenix prior to 2011 for the right to manage Yan Hua Hospital and to receive the Management Fees from Yan Hua Hospital Group until 17 July 2055; and (ii) invest the Investment of a total of RMB150 million by tranches into Yan Hua Hospital Group prior to 2015 to support the long-term development of Yan Hua Hospital Group. As at the Last Practicable Date, Beijing Phoenix had made an aggregate amount of RMB150 million of the Investment. The terms of the Yan Hua IOT Agreement are subject to approval by the Independent Shareholders every three years. As the original annual caps under the Yan Hua IOT Agreement expired on 31 December 2015, the Company intends to continue the arrangements contemplated thereunder and proposes to renew the annual caps for the three financial years ending 31 December 2018.

Pursuant to the Yan Hua IOT Agreement and as disclosed in the Prospectus, certain services were provided to Yan Hua Hospital Group, including management and consulting services, brand building, financial support, human resources and academic research support,

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and improvement of medical facilities and information technology systems. Yan Hua Hospital and Yan Hua Phoenix have agreed not to negotiate with any third party regarding hospital management services without the Group's prior consent.

As an integral part and a major hospital of the Group's healthcare services network, Yan Hua Hospital Group plays an important and crucial role in creating synergies, improving efficiency, enhancing standardization and quality, and improving profitability of the Group's healthcare services. The Yan Hua IOT Agreement and the PMM Sales Framework Agreement serve as a key bonding between Yan Hua Hospital Group and the Group to ensure long-term cooperation.

As advised by the executive Directors and according to the CCT Announcement, on July 2016, Beijing Wanrong, Beijing Jiayi, Beijing Phoenix and Yan Hua Hospital Group entered into the PMM Supplemental Agreement to extend the term of the Original PMM Sales Framework Agreement until 31 December 2018. For the details of the PMM Supplemental Agreement, please refer to the Letter from the Board. As the Original PMM Sales Framework Agreement will expire on 5 November 2016 and the original annual caps in relation thereto expired on 31 December 2015. In this connection, the Company intends to continue the arrangement contemplated thereunder by extending the term of the Original PMM Sales Framework Agreement and renewing the annual caps for the three financial years ending 31 December 2018 in relation thereto.

According to the annual report of the Company for each of the two years ended 31 December 2014 and 2015, we note that the management fees sales received from Yan Hua Hospital Group under the Yan Hua IOT Agreement contributed over 40% of the Group's sales revenue derived from provision of hospital management services in the past three years. Further, we note that the total purchase by Yan Hua Hospital Group contributed over 30% of the Group's sales revenue derived from the supply chain business in the past three years. Set out below are (i) the approximate amount of the Group's sales revenue derived from the management fees received from Yan Hua Hospital Group under the Yan Hua IOT Agreement; and (ii) the approximate amount of Group's sales revenue derived from the total purchase by Yan Hua Hospital Group under the Original PMM Sales Framework Agreement:

	<b>Financial year ended</b>		
	<b>31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b><i>Revenue of the Group derived from the management fees received from Yan Hua Hospital Group under the Yan Hua IOT Agreement</i></b>	21,248	30,067	31,767
Approximate increase as compared to previous year (%)		41.5%	5.7%
Contribution from Yan Hua Hospital Group to the Group's revenue derived from provision of hospital management services	52.1%	50.0%	44.1%

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	<b>Financial year ended</b>		
	<b>31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b><i>Revenue of the Group derived from the total purchase by Yan Hua Hospital Group under the Original PMM Sales Framework Agreement</i></b>	145,166	230,203	248,601
Approximate increase as compared to previous year (%)		58.6%	8.0%
Contribution from Yan Hua Hospital Group to the Group's revenue derived from supply chain business	38.6%	38.0%	34.3%

We understand from the executive Directors that there would be adverse impact on the Group's business and sales if the Group ceases to provide hospital management services and supply pharmaceuticals, medical device and medical consumables to Yan Hua Hospital Group given that (i) Yan Hua Hospital Group contributed (a) over 40% of the Group's revenue derived from provision of the hospital management services in the past three years; and (b) over 30% of the Group's revenue derived from supply chain business; and (ii) it would take time for the Group to source new customers to replace Yan Hua Hospital Group's role. On this basis and given that the CCTs will be conducted on normal commercial terms (as more particularly discussed in the sub-section headed "Principal terms of the Agreements" below), we consider that the entering into of the Agreements is in the interests of the Company and the Shareholders as a whole. In light of the principal activities of the Group, we also consider that the CCTs are conducted in the ordinary and usual course of business of the Group.

## **2. Principal terms of the Agreements**

Set out below is a summary of the principal terms of (i) the Yan Hua IOT Agreement and (ii) PMM Sales Framework Agreement. Further details of the terms of the Agreements are set out in the Letter from the Board.

### ***(I) Yan Hua IOT Agreement***

As set out in the Prospectus, Beijing Phoenix, the wholly-owned subsidiary of the Company, and Yan Hua Phoenix entered into a hospital management right and investment framework agreement on 1 February 2008, and a hospital management agreement on 4 February 2008, which were supplemented by several agreements. The terms of the Yan Hua IOT Agreement are subject to approval by the Independent Shareholders every three years. For the Managements Fees from Yan Hua Hospital Group, the calculation of annual Management Fee is consisted of two parts which include (i) a fixed percentage of the first RMB150 million of the annual revenue of Yan Hua Hospital Group, which will be paid on the lump sum at the end of each year; and (ii) a higher fixed percentage of the annual revenue in excess of RMB150 million, which is estimated and prepaid on a quarterly

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basis, less the amount of the relevant Investment Repayment. Pursuant to the Yan Hua IOT Agreement, Yan Hua Hospital Group shall repay the Investment Repayment. For the three years ended 31 December 2015, the annual Management fee are approximately 3%~5% of the annual revenue of Yan Hua Hospital Group. Further, the Investment (i.e. RMB150 million) made by Beijing Phoenix shall be repaid by Yan Hua Hospital Group starting from 2012 annually until the end of the term of the Yan Hua IOT Agreement. The discontinuation or termination of the Yan Hua IOT Agreement would not affect the Investment Repayment schedule.

Pursuant to the Yan Hua IOT Agreement and advised by the executive Directors, the Management Fees from Yan Hua Hospital Group are to be agreed and determined on an arm's length basis according to the principles of fairness and reasonableness between parties from time to time, which shall be comparable to, or no less favourable than, the management fees received from other independent third parties. In order to assess the fairness and reasonable of the terms of the Yan Hua IOT Agreement, we have attempted to review any similar agreements entered into between the Group and any independent third parties. We selected, on a random basis, and reviewed five management agreements from all the agreements signed between the Group and other independent third parties.

Among all the selected samples, however, there is only one management agreement signed between the Group and an independent third party (the "**Independent Third Party**") that is comparable to the Yan Hua IOT Agreement in terms of operating scale and background of the Independent Third Party (i.e. both Yan Hua Hospital Group and the Independent Third Party are Beijing medical insurance designated institutions and Grade III hospital). For the other selected samples, we consider that they are not comparable to the Yan Hua IOT Agreement because (i) other independent third parties entered into the agreements with the Group were hospitals established and owned either by district/regional government or by municipal government of the PRC, whereas Yan Hua Hospital was established by a state-owned enterprise and is currently wholly owned by Yan Hua Phoenix, a non-government enterprise; (ii) other hospitals under the management agreements with the Group are categorized as Grade II hospitals whereas Yan Hua Hospital is a Grade III hospital, various classes of hospitals differ significantly in size, personnel, number of beds, medical equipment and different charging scheme/tariff; and (iii) hospitals located at different provinces complies with policies implemented by their respective municipal governments. As advised by the executive Directors, only the Independent Third Party is comparable to Yan Hua Hospital Group and hence no other management agreement signed with other independent third parties are comparable to the Yan Hua IOT Agreement. Therefore, we consider that the selected sample is exhaustive and representative.

Pursuant to the management agreement signed between the Group and the Independent Third Party, the Group made the initial investment of RMB150.0 million in the Independent Third Party, in exchange for the right to manage the hospitals owned by the Independent Third Party and then to receive the management fee from the Independent Third Party for 20 years. The calculation of annual management fees received from the

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Independent Third Party is based on the following formula: a fixed percentage of the first RMB413.7 million of the annual revenue of the Independent Third Party, plus a higher percentage of the annual revenue in excess of RMB413.7 million. For the three years ended 31 December 2015, the annual management fees are approximately 1.8%~3.1% of the annual revenue of the Independent Third Party. We consider that (i) the basis of the Management Fee Formula is similar to that of the Independent Third Party; and (ii) the percentages used in the Management Fee Formula and percentages used in calculating the management fee of the Independent Third Party are in the similar range, therefore, the Management Fee Formula is comparable to, or no less favourable than, that of the Independent Third Party. On this basis, we noted from the selected sample that the Management Fees received from Yan Hua Hospital Group are comparable to, or no less favourable than, the management fees received from independent third parties by provided similar management services.

### *(II) PMM Sales Framework Agreement*

As set out in the Prospectus, Beijing Wanrong and Beijing Jiayi, the wholly-owned indirect subsidiaries of the Company, and Yan Hua Hospital Group entered the Original PMM Sales Framework Agreement whereby Beijing Wangrong and Beijing Jiayi supply pharmaceuticals, medical device and medical consumables to Yan Hua Hospital Group on a recurring basis.

Regarding the supply of pharmaceuticals, Yan Hua Hospital Group places purchase orders for pharmaceuticals to Beijing Wanrong and Beijing Jiayi from time to time and Beijing Wanrong and Beijing Jiayi fulfil the orders by selling the products to Yan Hua Hospital Group at a price equal to the “bidding price” of the products fixed by Ministry of Health of the PRC (中華人民共和國衛生部) and National Development and Reform Commission (中華人民共和國國家發展和改革委員會). As set out in the guidance from National Development and Reform Commission, the retail prices of most pharmaceuticals sold by medical institutions to patients must adhere to a fixed 15% profit margin ceiling set by the PRC Government. As a result, the retail price may not exceed 115% of the “bidding price” for most pharmaceuticals.

Regarding the supply of medical consumables, Yan Hua Hospital Group places purchase orders for medical consumables to Beijing Wanrong and Beijing Jiayi from time to time and Beijing Wanrong and Beijing Jiayi fulfil the orders by selling the products to Yan Hua Hospital Group at a price equal to the “bidding price” of the medical consumables fixed by Beijing Municipal Health Bureau (北京市衛生局). For the medical consumables not included in the list announced by Beijing Municipal Health Bureau, the selling price of medical consumables to Yan Hua Hospital Group should be determined at the prevailing price.

Regarding the supply of medical device, the selling price of the medical device is not controlled by any PRC regulators. Therefore, the selling price of medical device to Yan Hua Hospital Group should be determined at the prevailing price.

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The sales department of Beijing Wanrong and Beijing Jiayi will monitor the pricing for pharmaceuticals and medical consumables without prescribed “bidding price” and medical device and ensure that the agreed prices are fair and reasonable.

PMM Supplemental Agreement will extend the term of the Original PMM Sales Framework Agreement until 31 December 2018 with the renewal of the annual caps for the three financial years ending 31 December 2018 in relation thereto.

We have, on a sampling basis, randomly selected three purchase transactions by Yan Hua Hospital Group from Beijing Wanrong and Beijing Jiayi for review. We note from delivery invoices of the selected samples that the prices for the products supplied to Yan Hua Hospital Group are comparable to, or no less favourable than, the prices of the same products offered to independent third parties or at a price equal to the “bidding price” of the products suggested by the PRC regulators.

### 3. Proposed annual caps with respect to the CCTs contemplated under the Agreements

The CCTs contemplated under the Agreements will be subject to the relevant proposed annual caps whereby for each of the three financial years ending 31 December 2016, 2017 and 2018, the amount of the CCTs contemplated under the Agreements will not exceed the applicable annual amounts stated in the Letter from the Board. In assessing the reasonableness of the proposed annual caps, we have discussed with executive Directors and the management of the Group the basis and underlying assumptions for the purpose of setting the proposed annual caps.

#### (I) Yan Hua IOT Agreement

The proposed annual caps for the three years ending 31 December 2018 in relation to Yan Hua IOT Agreement are set as follows:

	Financial year ending		
	31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Annual caps for Management Fees	39,910	47,260	55,710
Annual caps for Investment Repayment	3,620	3,620	3,620
<b>Proposed annual caps under Yan Hua IOT Agreement</b>	<b>43,530</b>	<b>50,880</b>	<b>59,330</b>

In determining the proposed annual caps for the transactions contemplated under the Yan Hua IOT Agreement, the executive Directors have taken into account, among other things, (i) the total historical transaction amounts on the Management Fees and the Investment Repayment under the Yan Hua IOT Agreement; (ii) the percentage of utilization of the representative annual caps under the Yan Hua IOT Agreement for the

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three financial years ended 31 December 2015; (iii) the financial performance of Yan Hua Hospital Group for the three financial years ended 31 December 2015; (iv) the Management Fee Formula; (v) the future prospectus of Yan Hua Hospital Group with reference to the establishment of a new tumor treatment center in 2016 and its plan in expanding the cooperation with the medical institutions in the surrounding areas of Yan Hua Hospital; and (vi) the expected Investment Repayment amounts for the three financial years ending 31 December 2018. For the details of determining the proposed annual caps for the transactions contemplated under the Yan Hua IOT Agreement, please refer to the Letter from the Board.

As advised by the executive Directors, they have discussed with the management of Yan Hua Hospital Group on its financial performance for the six months ended 30 June 2016 and future prospect of Yan Hua Hospital Group for the three years ending 31 December 2018. We are also advised by the executive Directors that the revenue of Yan Hua Hospital Group for the six months ended 30 June 2016 increased by 13.8% when compared with that of 2015. The increase of the revenue of Yan Hua Hospital Group for the six months ended 30 June 2016 was attributable to (i) the increase of the number of outpatient by approximately 5.7%; (ii) the increase of the number of inpatient by approximately 12.4%; (iii) the increase of average spending per outpatient visit by approximately 6.4%; and (iv) the increase of average spending per inpatient visit by approximately 2.9%. In order to assess the fairness and the reasonableness of the proposed annual caps, we reviewed the calculation prepared by the Company and the assumption used in the calculation.

As advised by the executive Directors, Yan Hua Hospital Group established a new tumor treatment center in 2016 to provide specialized tumor treatment services, including screening test, immune cell therapy and multi-discipline treatment. The new tumor treatment center will utilize the Grade III hospital facilities, cooperate with internally renowned experts and introduce the latest technology, which will attract more patients and further boost up the revenue of Yan Hua Hospital Group. In addition, Yan Hua Hospital Group signed a cooperation agreement with an independent third party and, according to the cooperation agreement, Yan Hua Hospital Group has the right to manage the staff and worker of hospitals owned by the independent third party. Therefore, Yan Hua Hospital Group will further its collaboration with the medical institutions in the surrounding areas and to expand its geographical coverage and service capacity. As such, Yan Hua Hospital Group is expected to record annual increases of approximately 5%~7% and 15%~20% for the number of outpatient visits and the number of inpatient visits respectively for the three financial years ending 31 December 2018. Also, pursuant to the discussion with the executive Directors, Yan Hua Hospital Group intends to introduce more new treatment therapies and pharmaceuticals and expects to record higher annual growth of approximately 8%~10% in the average spending per patient visit for the three financial years ending 31 December 2018 than the previous years. On all the basis mentioned above, we considered that the calculation method and the assumption of the proposed annual caps are fair and reasonable.

Pursuant to the Yan Hua IOT Agreement, the Investment of a total of RMB150 million was invested to the Yan Hua IOT Agreement by the Group before 2015, which is repayable. As set out in the repayment schedule provided by the executive Directors, a

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fixed repayment of approximately RMB3.6 million will be repaid by Yan Hua Hospital Group since 2015 until the end of the term of the Yan Hua IOT Agreement. We are advised by the executive Directors that in determining the proposed annual caps of the Investment Repayment for the three years ending 31 December 2018 of RMB3.62 million, the executive Directors have taken into account the repayment schedule of the expected Investment Repayment for the three financial years ending 31 December 2018. On all the basis mentioned above, we consider proposed annual caps under Yan Hua IOT Agreement for the three years ending 31 December 2018 to be fair and reasonable so far as the Independent Shareholders are concerned.

### *(II) PMM Sales Framework Agreement*

The proposed annual caps under the PMM Sales Framework Agreement for the three years ending 31 December 2018 are set as follows:

	<b>Financial year ending</b>		
	<b>31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Annual caps under PMM Sales Framework Agreement	400,780	570,680	713,540

In determining the proposed annual caps for the transactions contemplated under the PMM Sales Framework Agreement, the executive Directors have taken into account, among other things, (i) the total historical transaction amounts under the Original PMM Sales Framework Agreement for the three years ended 31 December 2015; (ii) the percentages of utilization of the respective annual caps under the PMM Sales Framework Agreement for the three financial years ended 31 December 2015; (iii) the expected increase in the total purchase by Yan Hua Hospital Group from Beijing Wanrong and Beijing Jiayi for the three financial years ending 31 December 2018; and (iv) the expected increase in the ratio of procurement from Beijing Wanrong and Beijing Jiayi for the three financial years ending 31 December 2018. For the details of determining the proposed annual caps for the transactions contemplated under the PMM Sales Framework Agreement, please refer to the Letter from the Board.

As advised by the executive Directors, the total purchase of pharmaceuticals and medical consumables by Yan Hua Hospital Group for the six months ended 30 June 2016 increased by 10.6% when compared with that of 2015. As mentioned above, the number of outpatient and the number of inpatient increased for the six months ended 30 June 2016 when compared with that of 2015. Therefore, Yan Hua Hospital Group consumed more pharmaceuticals and medical consumables.

Regarding the purchase of the medical devices by Yan Hua Hospital Group for the year ending 31 December 2016, the executive Directors consider the purchase budget for the year ending 31 December 2016 prepared by Yan Hua Hospital Group. Yan Hua



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Hospital Group has planned to purchase a new medical device of approximately RMB25.0 million (i.e. approximately 6% of the proposed annual cap for the year ending 31 December 2016) from the Group subject to the approval from the PRC regulators. Further, we are advised by the executive Directors that, in order to enjoy bulk purchase discounts, Yan Hua Hospital Group plans to increase procurement from the Group from approximately 40%~60% for the three years ended 31 December 2015 to approximately 70%~90% for the three years ending 31 December 2018. Pursuant to the Prospectus, under the PMM Sales Framework Agreement, the Group supplied pharmaceuticals, except for certain pharmaceuticals such as prepared traditional Chinese medicine and pharmaceuticals sold at community clinics (the “**Excluded Pharmaceuticals**”) to Yan Hua Hospital Group. The purchase of the pharmaceuticals of Yan Hua Hospital Group through the Group can be up to 95% of the total purchase of Yan Hua Hospital Group. We have reviewed the notice issued by Yan Hua Hospital Group to the Group which stated that Yan Hua Hospital plans to increase procurement from the Group from approximately 40%~60% for the three years ended 31 December 2015 to approximately 70%~90% for the three years ending 31 December 2018.

As advised by the executive Directors, Yan Hua Hospital Group established a new tumor treatment center in 2016 to provide specialized tumor treatment services, including screening test, immune cell therapy and multi-discipline treatment. The new tumor treatment center will utilize the Grade III hospital facilities, cooperate with internationally renowned experts and introduce the latest technology, which will attract more patients and further boost up the revenue of Yan Hua Hospital Group. As advised by the executive Directors, the expected purchase of pharmaceuticals and medical device for the newly established tumor treatment center of Yan Hua Hospital Group should be more expensive when compared with the purchase of pharmaceuticals and medical device for the other departments. The executive Directors expected that the new tumor treatment center will increase the total purchase of the pharmaceuticals, medical device and medical consumables by Yan Hua Hospital Group from the Group for the three years ending 31 December 2018 because (i) the increase in the number of patients will boost up the demand on the pharmaceuticals, medical device and medical consumables; and (ii) more medical device will be acquired due to the setup of the new tumor treatment center.

Therefore, we consider that it is reasonable that the purchase of the medical devices, pharmaceuticals and medical consumables by Yan Hua Hospital Group from the Group will increase by approximately 20%~40% for the three years ending 31 December 2018 because (i) the number of inpatient and outpatient of Yan Hua Hospital Group increased in the first six months of 2016 when compared with that of 2015; (ii) the ratio of procurement of Yan Hua Hospital Group from the Group will increase in order to enjoy bulk purchase discounts; and (iii) the setup of the new tumor treatment center will boost up the demand on the pharmaceuticals, medical device and medical consumables. On all the basis mentioned above, we consider proposed annual caps under PMM Sales Framework Agreement for the three years ending 31 December 2018 to be fair and reasonable so far as the Independent Shareholders are concerned.

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### 4. Conditions of the CCTs contemplated under the Agreements

As advised by the executive Directors, the independent non-executive Directors has conducted annual review on the CCTs to ensure that the terms of each of the Yan Hua IOT Agreement and the PMM Sales Framework Agreement are on normal commercial terms and no less favourable to the Company than those available to or (if available) from independent third parties; and have been entered into in accordance with the relevant terms that are fair and reasonable and in an overall interest of the shareholders of the Company as a whole.

In addition, as mentioned above, the selling price of pharmaceuticals and medical consumables are fixed by the PRC regulators. As advised by the executive Directors, the quotation of selling prices of the pharmaceuticals and medical consumables to the hospitals are closely monitored and safeguarded by the quality control department of the Group, in way of repeated procedures including negotiations, quotations and reviews, in order to ensuring the reasonableness and stableness of the selling prices, which are at a price equivalent to that as set by the PRC regulators (the “bidding price”). The sales department of Beijing Wanrong and Beijing Jiayi will monitor the pricing for pharmaceuticals and medical consumables without prescribed “bidding price” and medical device and ensure that the agreed prices are fair and reasonable. For the selling price of the medical devices, it is not controlled by any PRC regulators. The executive Directors stated that the reasonableness of the selling price of the medical devices is measured and justified by comparing that with at least three sales invoice of the same or similar medical devices provided to other hospitals. Therefore, the Company can ensure all the selling price of the medical devices are in the prevailing market price. On all the basis mentioned above, we consider the Company has sufficient measures to ensure that the terms of the subject transactions are on normal commercial terms or no less favourable to the Company.

In compliance with the Listing Rules, the CCTs contemplated under the Agreements are subject to a number of conditions which include, among other things:

- (i) the proposed annual caps for the CCTs contemplated under the Agreements for each of the three financial years ending 31 December 2016, 2017 and 2018 will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the CCTs contemplated under the Agreements and confirm in the Company’s annual report whether the CCTs contemplated under the Agreements have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

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- (iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the CCTs contemplated under the Agreements and they must confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that the CCTs contemplated under the Agreements:
  - (a) have not been approved by the Board;
  - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
  - (c) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the CCTs contemplated under the Agreements; and
  - (d) have exceeded the annual caps with respect to the CCTs contemplated under the Agreements;
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters set out in the points (ii) and/or (iii) above respectively;
- (v) the Company must allow, and ensure that Yan Hua Hospital Group allows, the auditors of the Company sufficient access to their records of the CCTs for the purpose of the auditors' reporting on the CCTs. The Company must state in the annual report whether the auditors of the Company have confirmed the matters stated in Rule 14A.56 of the Listing Rules; and
- (vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the CCTs contemplated under the Agreements exceeds the relevant annual caps, or that there is any material amendment to the terms of the Agreements.

In light of the conditions imposed on the CCTs contemplated under the Agreements, in particular, (1) the limit of the value of the CCTs contemplated under the Agreements by way of the relevant annual caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the CCTs contemplated under Agreements; and (3) the aforesaid on-going review by the auditors of the Company regarding the annual caps, we are of the view that appropriate measures will be in place to govern the conduct of the CCTs contemplated under the Agreements and safeguard the interests of the Independent Shareholders.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### OPINION

Due to the application for the Whitewash Waiver by China Resources Healthcare Group Limited pursuant to the Acquisition Agreement and as the CCTs are not capable of being extended to all Shareholders, the CCTs also constitute special deals under Rule 25 of the Takeovers Code which require the consent of the Executive. Having taken into account the above principal factors, we consider that the terms of the Agreements and the proposed annual caps in relation thereto (i) have been negotiated on an arm's length basis; (ii) are entered into in the ordinary and usual course of business of the Company; (iii) are fair and reasonable; and (iv) are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the entering into of the Agreements and the transactions contemplated thereunder (i.e. the CCTs) as special deals and the proposed annual caps in relation to the CCTs.

Yours faithfully  
For and on behalf of  
**VMS Securities Limited**  
**Nick Man**  
*Managing Director*  
*Corporate Finance*

*Mr. Nick Man is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of VMS Securities Limited to carry on Type 6 (advising on corporate finance) regulated activity under the SFO. Mr. Nick Man has over 10 years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for connected transactions involving companies listed in Hong Kong.*

## 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 Group. 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.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, taking no account of the Consideration Shares that may be allotted and issued by the Company to the Seller (or its wholly-owned subsidiary as the Seller may nominate) as payment of the Consideration, the following Directors or chief executive of the Company had or were deemed to have interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required 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 been taken under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register kept by the Company; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules were as follows:

#### *Long positions in the Shares*

Name of Directors and Chief Executives	Capacity/Nature of Interest	Number of Shares held	Approximate percentage of shareholding %
Liang Hongze	Interest in Controlled Corporation and Beneficial Owner	26,860,912 <sup>1</sup>	3.22

Name of Directors and Chief Executives	Capacity/Nature of Interest	Number of Shares held	Approximate percentage of shareholding %
Xu Jie	Beneficial Owner	13,868,000	1.66
Zhang Xiaodan	Beneficial Owner	2,651,729	0.32
Xu Zechang	Beneficial Owner	2,948,593	0.35
Cheng Libing	Beneficial Owner	928,629	0.11
Jiang Tianfan	Interest in Controlled Corporation and Beneficial Owner	10,551,648 <sup>2</sup>	1.27
Shan Baojie	Beneficial Owner	148,629	0.02

*Notes:*

1. These interest represented:
  - (a) 26,705,912 Shares held by Xin Yue Development Limited, which is wholly owned by Liang Hongze; and
  - (b) 155,000 Shares held by Liang Hongze.
2. These interest represented:
  - (a) 10,401,648 Shares held by True Glory Global Limited, which is wholly owned by Jiang Tianfan; and
  - (b) 150,000 Shares held by Jiang Tianfan.

Save as disclosed above, as at the Latest Practicable Date, so far as it is known to the Directors or the chief executives of the Company, none of the Directors or chief executives of the Company had interests or short positions in the Shares, underlying shares and debentures of the Company or any of its 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 the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be recorded in the register kept by the Company or (iii) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

**(b) Substantial Shareholders' and other person's interests and short positions in the Shares and underlying shares of the Company**

As at the Latest Practicable Date, taking no account of the Consideration Shares that may be allotted and issued by the Company to the Seller (or its wholly-owned subsidiary as the Seller may nominate) as payment of the Consideration, substantial Shareholders' interests or short positions in the Shares and underlying shares of the Company, which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares held	Approximate percentage of shareholding %
Speed Key Limited	Beneficial Owner	181,401,360 (L) <sup>1</sup>	21.76
Xu Baorui	Interest in Controlled Corporation	181,401,360 (L) <sup>1</sup>	21.76
Jiang Jinzhi	Interest in Controlled Corporation	58,350,000 (L) <sup>2</sup>	6.99
Tang Hua	Interest in Controlled Corporation	58,350,000 (L) <sup>2</sup>	6.99
JPMorgan Chase & Co.	Interest in Controlled Corporation	58,005,347 (L) <sup>3</sup>	6.95
		1,057,477 (S)	0.12
		4,448,500 (P)	0.53

L: Long position

S: Short position

P: Lending Pool

Notes:

1. These shares were held by Speed Key Limited which was wholly owned by Mr. Xu Baorui, the father of Ms. Xu Jie, an executive Director and the Chairman.
2. These Shares represented:
  - (a) Greenwood China Healthcare Master Fund, Greenwoods China Alpha Master Fund, Greenwood Asset Management Limited and Golden China Master Fund held 5,800,000 Shares, 7,500,000 Shares, 2,600,000 Shares and 15,000,000 Shares respectively, an together held an aggregate of 30,900,000 Shares.

The entire issued share capital of each of Greenwood China Healthcare Master Fund and Greenwoods China Alpha Master Fund is held by Greenwoods Asset Management Limited, which is in turn wholly owned by Greenwoods Asset Management Holdings Limited. Unique Element Corp. which is wholly owned by Jiang Jinzhi, holds 81% of the issued share capital of Greenwoods Asset Management Holdings Limited.

The entire issued share capital of Golden China Master Fund is wholly owned by Jiang Jinzhi.

Jiang Jinzhi is the husband of Tang Hua and is deemed to be interested in the 27,450,000 Shares held by Green Talent Investments Limited, a company controlled by Tang Hua.

- (b) 27,450,000 Shares were held by Green Talent Investments Limited, which is owned as to 6.32%, 46.84% and 46.84% by Greenwoods Bloom Ltd., Greenwoods Bloom Fund, L.P. and Greenwoods Bloom Fund II, L.P. respectively.

2% of the equity interests in each of Greenwoods Bloom Fund, L.P. and Greenwoods Bloom Fund II, L.P. is held by Greenwoods Bloom Ltd. and Greenwoods Bloom II Ltd. respectively, which are both in turn wholly owned by Tang Hua.

Tang Hua is the wife of Jiang Jinzhi and is deemed to be interested in the 30,900,000 Shares beneficially owned by Jiang Jinzhi.

3. The entire issued share capital of each of JPMorgan Asset Management (Taiwan) Limited, JF Asset Management Limited and JF International Management Inc. is held by JPMorgan Asset Management (Asia) Inc., which is in turn wholly owned by JPMorgan Asset Management Holdings Inc.

The entire issued share capital of J.P. Morgan Clearing Corp is held by J.P. Morgan Securities LLC, which is in turn wholly owned by J.P. Morgan Broker-Dealer Holdings Inc. The entire issued share capital of J.P. Morgan Broker-Dealer Holdings Inc is held by JPMorgan Chase & Co.. 0.59% of the issued share capital of J.P. Morgan Securities plc is owned by J.P. Morgan Capital Financing Limited, which is in turn wholly owned by JPMorgan Chase & Co.. 99.41% of the issued share capital of J.P. Morgan Securities plc is owned by J.P. Morgan Chase International Holdings, which is in turn wholly owned by J.P. Morgan Chase (UK) Holdings Limited. The entire issued share capital of J.P. Morgan Chase (UK) Holdings Limited is held by J.P. Morgan Capital Holdings Limited, which is in turn 72.73% owned by J.P. Morgan International Finance Limited and 27.27% owned by J.P. Morgan Overseas Capital Corporation.

The entire issued share capital of J.P. Morgan Whitefriars Inc. is held by J.P. Morgan Overseas Capital Corporation, which is in turn wholly owned by J.P. Morgan International Finance Limited.

The entire issued share capital of J.P. Morgan International Finance Limited is held by Bank One International Holdings Corporation, which is in turn wholly owned by J.P. Morgan International Inc.. The entire issued share capital of J.P. Morgan International Inc. is held by JPMorgan Chase Bank, N.A., which is in turn wholly owned by JPMorgan Chase & Co..

The entire issued share capital of each of JPMorgan Asset Management Holdings Inc, J.P. Morgan Broker-Dealer Holdings Inc, J.P. Morgan Capital Financing Limited and JPMorgan Chase Bank, N.A. is held by JPMorgan Chase & Co..

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares and underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

### **3. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OR ARRANGEMENTS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been, since December 31, 2015 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

The sponsor for Yan Hua Hospital is Yan Hua Phoenix, which is a direct wholly-owned subsidiary of Beijing Juxin Wantong. Beijing Juxin Wantong is wholly-owned by Beijing Wantong, which in turn is wholly-owned by Ms. Xu Jie, the Chairman of the Company and an



executive Director, and Ms. Xu Xiaojie, daughter of Ms. Xu Jie. Therefore, Ms. Xu Jie is materially interested in the Yan Hua IOT Agreement and the PMM Sales Framework Agreement. Save for the above and as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

#### 4. DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which is not expiring or determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than normal statutory compensation).

#### 5. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective close associates had interests in a business, which competes or may compete, either directly or indirectly, with the business of the Group.

#### 6. 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, 2015, being the date to which the latest published audited accounts of the Company were made up.

#### 7. EXPERT AND CONSENT

The following is the qualification of the expert who has given its advice and recommendation which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
VMS Securities Limited	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO

VMS has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or references to its name and advice or opinion in the form and context in which they respectively appear.

As at the Latest Practicable Date, VMS was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since December 31, 2015 (being the date to which the latest published audited financial statements of the Group were made up).

**8. MISCELLANEOUS**

- (a) The registered office of the Company is at Harneys Services (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, PO Box 10240, Grand Cayman, KY1-1002, Cayman Islands;
- (b) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong;
- (c) The company secretary of the Company is Ms. Ngai Kit Fong; and
- (d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on a business day in Hong Kong at the principal place of business of the Company in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from the Latest Practicable Date to the date of the EGM:

- (a) the Yan Hua IOT Agreement;
- (b) the Original PMM Sales Framework Agreement;
- (c) the PMM Supplemental Agreement;
- (d) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" on pages 27 to 28 of this circular;
- (e) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" on pages 29 to 42 of this circular;
- (f) the written consent as referred to in the paragraph headed "Expert and Consent" in this appendix; and
- (g) this circular.

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## NOTICE OF EGM

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PHOENIX  
HEALTHCARE  
GROUP  
凤凰医疗集团

### Phoenix Healthcare Group Co. Ltd 鳳凰醫療集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1515)**

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (“EGM”) of Phoenix Healthcare Group Co. Ltd (鳳凰醫療集團有限公司) (the “**Company**”) will be held at E-825, Fuli Morgan Center, No. 6 Taiping Street, Xicheng District, Beijing, the PRC on Monday, 31 October, 2016 at 11:00 a.m. (or as soon thereafter as the extraordinary general meeting of the Company convened by a notice of extraordinary general meeting dated 7 October 2016 for the same day and place shall have concluded or adjourned) for the purpose of considering, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the Yan Hua IOT Agreement (as defined in the circular of the Company dated 14 October 2016 (the “**Circular**”)) (copy of the Yan Hua IOT Agreement has been produced to the meeting and marked “A” and initialed by the chairman of the meeting for the purpose of identification) and the proposed annual caps in relation thereto for the three years ending December 31, 2018 (as set out in the Circular) be and are hereby approved; and
- (b) any one of the directors of the Company be and is hereby authorized to do all such acts and things and sign, agree, ratify, execute, perfect or deliver all such agreements, deeds, instruments and any other documents (and, where required, under the common seal of the Company in accordance with the Articles of Association of the Company) and take all such steps as the director in his/her discretion may consider necessary, appropriate, desirable or expedient to implement, give effect to or in connection with the Yan Hua IOT Agreement and any of the transactions contemplated thereunder.”

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## NOTICE OF EGM

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2. “**THAT:**

- (a) the Original PMM Sales Framework Agreement (as defined in the Circular) as supplemented by the PMM Supplemental Agreement (as defined in the Circular) (copy of the Original PMM Sales Framework Agreement has been produced to the meeting and marked “B” and initialed by the chairman of the meeting for the purpose of identification and copy of the Supplemental PMM Agreement has been produced to the meeting and marked “C” and initialed by the chairman of the meeting for the purpose of identification) and the proposed annual caps in relation thereto for the three years ending December 31, 2018 (as set out in the Circular) be and are hereby approved; and
- (b) any one of the directors of the Company be and is hereby authorized to do all such acts and things and sign, agree, ratify, execute, perfect and deliver all such agreements, deeds, instruments and any other documents (and, where required, under the common seal of the Company in accordance with the Articles of Association of the Company) and take all such steps as the director in his/her discretion may consider necessary, appropriate, desirable or expedient to implement, give effect to or in connection with the PMM Sales Framework Agreement (as defined in the Circular) and any of the transactions contemplated thereunder.”

By Order of the Board  
**Phoenix Healthcare Group Co. Ltd**  
**Liang Hongze**  
*Executive Director*

Hong Kong, 14 October 2016

*Registered Office:*

Harneys Services (Cayman) Limited  
4th Floor, Harbour Place  
103 South Church Street  
PO Box 10240  
Grand Cayman KY1-1002  
Cayman Islands

*Principal Place of Business in Hong Kong:*

Level 54  
Hopewell Centre  
183 Queen’s Road East  
Hong Kong

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## NOTICE OF EGM

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*Notes:*

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the Memorandum of Association and Articles of Association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number of Shares in respect of which each such proxy is so appointed.
2. Where there are joint holders of any Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
3. A proxy form for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon.
4. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or if the appointer is a corporation, either under its common seal or under the hands of any officer or attorney duly authorised.
5. In order to be valid, the proxy form, together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be).
6. Completion and return of a proxy form shall not preclude a member from attending and voting in person at the EGM or any adjournment thereof (as the case may be) and, in such event, the proxy form appointing a proxy shall be deemed to be revoked.

*As at the date of this notice, the board of directors of the Company comprises Ms. Xu Jie, Mr. Liang Hongze, Mr. Zhang Xiaodan, Mr. Xu Zechang, Mr. Jiang Tianfan, Mr. Shan Baojie and Mr. Cheng Libing as executive directors; and Mr. Kwong Kwok Kong, Ms. Cheng Hong, Mr. Sun Jianhua and Mr. Lee Kar Chung Felix, as independent non-executive directors.*