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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 your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser

If you have sold or transferred all your shares in Wenzhou Kangning Hospital Co., Ltd., you should at once hand this circular, together with the accompanying form of proxy to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.

(A joint stock limited liability company incorporated in the People's Republic of China)
Stock code: 2120

**FINANCIAL REPORT FOR THE YEAR 2020
(INCLUDING THE AUDITED FINANCIAL STATEMENTS)
PROPOSED PROFIT DISTRIBUTION PLAN FOR THE YEAR 2020
PROPOSED FINANCIAL BUDGET FOR THE YEAR 2021
PROPOSED APPOINTMENT OF THE INDEPENDENT AUDITOR
OF THE COMPANY FOR THE YEAR 2021
REPORT OF THE BOARD FOR THE YEAR 2020
REPORT OF THE SUPERVISORY COMMITTEE FOR THE YEAR 2020
REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS
ON THEIR PERFORMANCE FOR THE YEAR 2020
PROPOSED APPOINTMENT OF MR. QIN HAO AS
A NON-EXECUTIVE DIRECTOR
GRANTING THE INCENTIVE SHARES TO CONNECTED PERSONS
PROPOSED AMENDMENTS TO THE EQUITY INCENTIVE SCHEME
AND
NOTICE OF THE ANNUAL GENERAL MEETING
FOR THE YEAR 2020**

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



Gram Capital Limited
嘉林資本有限公司

The Company will convene the AGM at 2:00 p.m. on Friday, June 18, 2021, at Conference Room, 12/F, Building 1, Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang Province, the PRC.

A letter from the Board is set out on pages 5 to 26 of this circular.

The notice of the AGM is set out on pages 43 to 44 of this circular.

Whether or not you are able to attend the AGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time scheduled for holding the AGM (i.e. before 2:00 p.m. on Thursday, June 17, 2021) (or any adjourned meeting thereof). Completion and delivery of the form of proxy shall not preclude you from attending and voting at the AGM or any adjournment thereof should you so wish.

May 14, 2021

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings.

“Annual General Meeting” or “AGM”	the annual general meeting of the Company for the year 2020 to be convened and held on June 18, 2021
“AGM Notice”	the notice for convening the AGM as set out on pages 43 to 44 of this circular
“Articles”	the articles of association of the Company, as amended, supplemented or otherwise modified from time to time
“Board”	the board of directors of the Company
“Company”	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2120)
“connected person(s)”	has the same meaning as ascribed to it under the Hong Kong Listing Rules
“connected transaction”	has the same meaning as ascribed to it under the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)” or “Non-tradable and Non-listed Domestic Shares”	ordinary Share(s) of the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and currently not listed or traded on any stock exchange
“Domestic Shareholder(s)”	the holder(s) of Domestic Share(s)
“Employees’ Shareholding Platform”	employees’ shareholding platform, which holds the Incentive Shares for and on behalf of the Participants
“Equity Incentive Scheme”	the equity incentive scheme for the year 2018 of the Company
“Grant Date”	the date on which the Board duly grants the Incentive Shares to the Participants through the Employees’ Shareholding Platform in accordance with the Equity Incentive Scheme

DEFINITIONS

“Grant Price”	the price per Incentive Share at which the Company grants to the Employees’ Shareholding Platform in accordance with the Equity Incentive Scheme
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested ordinary Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
“H Shareholder(s)”	the holder(s) of H Share(s)
“HK\$” or “Hong Kong dollars”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Incentive Share(s)”	Non-tradable and Non-listed Domestic Shares granted under the Equity Incentive Scheme for subscription by the Participants through the Employees’ Shareholding Platform. According to the provisions under the Equity Incentive Scheme regarding Incentive Shares held by the Participants through the Employees’ Shareholding Platform, those Incentive Shares shall include the additional Shares in the event of conversion of capital reserve into share capital, bonus issues, share sub-division, etc. by the Company, whether or not the Incentive Shares are already unlocked
“Incentive Shares Entitlement”	the properties of the Partnership entitled by the Participants in proportion to the Incentive Shares granted to them
“Independent Board Committee”	the independent board committee of the Company, comprising all of the independent non-executive Directors, which has been formed for the purpose of advising the independent Shareholders as to the Proposed Grant

DEFINITIONS

“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and independent Shareholders in respect of the Proposed Grant
“Independent Shareholder(s)”	shareholder(s) who is/are not required abstaining from voting on the resolution in respect of the grant of Incentive Shares to connected persons
“Latest Practicable Date”	May 12, 2021, being the latest practicable date for ascertaining certain information contained herein before the printing of this circular
“Locked-up Period”	a stipulated period commencing from the Grant Date, during which the Employees’ Shareholding Platform may not dispose of (including but not limited to transfer, sell, guarantee, pledge or charge) any portion or the whole of Incentive Shares granted under the Equity Incentive Scheme, calculated from the Grant Date of the Incentive Shares
“Participant(s)”	Directors, Supervisors, senior management of the Group (including the general manager), core technical (business) personnel, and other persons who, in the opinion of the Board, shall be incentivized in accordance with the provisions of the Proposed Amendments to the Equity Incentive Scheme and be granted with the Incentive Shares
“Partnership”	a limited partnership formed by the Company to establish the Employees’ Shareholding Platform
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC”, “the People’s Republic of China” or “China”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Amendments to the Equity Incentive Scheme”	the proposed amendments to the terms of Equity Incentive Scheme
“Proposed Grant”	grant of reserved incentive Shares to Proposed Grantees pursuant to the Proposed Amendments to the Equity Incentive Scheme

DEFINITIONS

“Proposed Grantees”	connected persons who meet the granting conditions
“RMB”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the Company’s supervisory committee
“Total Share Reduction”	the total number of Shares of the Company that any Participant requires the general partner of the Partnership to dispose
“Unlocking Conditions”	the conditions required to be satisfied for the unlocking of the Equity Incentive Shares granted to Participants through the Employees’ Shareholding Platform under the Equity Incentive Scheme
“Unlocking Period”	the period during which the Participants may dispose of the whole or any portion of the Incentive Shares granted to him/her through the Employees’ Shareholding Platform upon the satisfaction of Unlocking Conditions as required under the Equity Incentive Scheme
“%”	percentage ratio

Certain amounts included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain table(s) may not be an arithmetic aggregation of the figures preceding them.

LETTER FROM THE BOARD



溫州康寧醫院股份有限公司

Wenzhou Kangning Hospital Co., Ltd.

(A joint stock limited liability company incorporated in the People's Republic of China)

Stock code: 2120

Executive Directors:

GUAN Weili (管偉立) (Chairman)

WANG Lianyue (王蓮月)

WANG Hongyue (王紅月)

Non-executive Director:

YANG Yang (楊揚)

Independent non-executive Directors:

ZHAO Xudong (趙旭東)

ZHONG Wentang (鐘文堂)

LIU Ning (劉寧)

To the Shareholders

Dear Sir or Madam,

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FOR THE YEAR 2020**

I. INTRODUCTION

The purpose of this circular is to provide you with the information in relation to the following resolutions to be proposed at the AGM:

1. To consider and approve the financial report of the Company for the year 2020 (including the audited financial statements);
2. To consider and approve the proposed profit distribution plan of the Company for the year 2020;
3. To consider and approve the proposed financial budget of the Company for the year 2021;
4. To consider and approve the appointment of the independent auditor of the Company for the year 2021;
5. To consider and approve the report of the Board of the Company for the year 2020;

LETTER FROM THE BOARD

6. To consider and approve the report of the Supervisory Committee of the Company for the year 2020;
7. To consider and approve the report of the independent non-executive Directors of the Company on their performance for the year 2020;
8. To consider and approve the proposed appointment of Mr. QIN Hao as a non-executive director;
9. To consider and approve the grant of Incentive Shares to connected persons; and
10. To consider and approve Proposed Amendments to the Equity Incentive Scheme.

Items 1 to 10 above shall be submitted to the AGM for Shareholders' consideration. Items 1 to 9 are to be approved as ordinary resolutions by the Shareholders at the AGM, item 10 is to be approved as special resolution by the Shareholders at the AGM.

II. FINANCIAL REPORT FOR THE YEAR 2020 (INCLUDING THE AUDITED FINANCIAL STATEMENTS)

An ordinary resolution will be proposed at the AGM to consider and approve the Company's financial report for the year 2020 (including the audited financial statements, the full text of which is set out in the Company's annual report for the year 2020 published on April 29, 2021).

III. PROPOSED PROFIT DISTRIBUTION PLAN FOR THE YEAR 2020

The Company has formulated the Company's profit distribution plan for 2020 in accordance with the prevailing operating conditions, market environment and future sustainable development objective, taking into account the interests of the shareholders, and in accordance with the Articles and relevant laws and regulations as follows:

1. Profit Distribution Plan for the Year 2020

As audited by PricewaterhouseCoopers Zhong Tian LLP, the Company's parent company achieved a net profit of RMB34,039,077 in 2020. According to the Articles, 10% of the net profit of RMB3,403,908 for the year is appropriated to the statutory surplus reserve, plus the undistributed profit of RMB200,462,672 at the beginning of the year, and the actual distributable profit for shareholders of the year is RMB231,097,841.

In accordance with the relevant provisions of the Hong Kong Listing Rules, the Company Law of the People's Republic of China and the Articles, in light of the actual situation of the Company, the Company's profit distribution plan for 2020 is: No cash dividends, no bonus shares, no conversion of capital reserve into share capital, and retained undistributed profit after dividend payment shall be carried forward to the next year.

2. Reasons for Not Making Profit Distribution

After comprehensive consideration of the actual operation of the Company and the relocation and expansion of Yongjia Kangning Hospital Co., Ltd. and Qingtian Kangning Hospital Co., Ltd., and the substantial funding requirements of new and in-progress construction and renovation projects including "Lucheng Qidu International Healthcare Center (鹿城七都國際康養中心)", "Kangning Longwan Medical and Health Complex (康寧龍灣醫療康養綜合體)" and "Taizhou Regional Central Hospital (台州區域中心醫院)" considered and approved by the Board, in order to achieve sustainable development, give back to the Shareholders with favourable results and better safeguard the long-terms interests of the Company and the Shareholders, the Company does not intend to make any profit distribution as at the end of 2020, nor will there be conversion of capital reserve into share capital.

LETTER FROM THE BOARD

3. The Purpose and Plan of the Company's Undistributed Profits

The undistributed profits shall be used to fund the Company's new and in-progress construction and renovation projects, and as capital reserve for any future projects.

In future, the Company will, as in the past, attach great importance to the return of investors in the form of cash dividends. In strict accordance with relevant laws, regulations and the Articles, considering various factors in relation to profit distribution, the Company will strictly implement the relevant profit distribution policies and share the results of its development, for the benefit of the development of the Company and with consideration of the return of investors.

An ordinary resolution will be proposed at the AGM to consider and approve the profit distribution plan.

IV. PROPOSED FINANCIAL BUDGET FOR THE YEAR 2021

An ordinary resolution will be proposed at the AGM to consider and approve the Company's proposed financial budget for the year 2021. For the year 2021, the Company targets to limit the administrative expenses, the selling and marketing expenses and the capital expenditure to RMB164.6 million, RMB10.5 million and RMB380.3 million, respectively.

V. PROPOSED APPOINTMENT OF THE INDEPENDENT AUDITOR OF THE COMPANY FOR THE YEAR 2021

PricewaterhouseCoopers Zhong Tian LLP is the legal auditor of the Company for the year 2020. In order to disclose the same information to domestic and overseas investors, and to lower the compliance costs as required to meet the regulatory requirements of different departments, as approved by the audit committee of the Board, an ordinary resolution will be proposed at the AGM to consider and approve the proposed appointment of PricewaterhouseCoopers Zhong Tian LLP as the auditor for the 2021 annual auditing of H shares of the Company and the 2021 legal auditing of the Company, to audit the annual financial statements for 2021 to be prepared by the Company under PRC Accounting Standards for Business Enterprises, and to perform other duties as required under the Hong Kong Listing Rules from the date of the AGM to the conclusion of the annual general meeting for the year 2021 in accordance with the Company Law of the People's Republic of China, the Hong Kong Listing Rules and other relevant provisions of laws, regulations and the Articles. At the same time, it is proposed that at the AGM authorize the Board (or its authorized persons) to determine the remuneration of the auditors and sign relevant contracts based on the market situation.

VI. REPORT OF THE BOARD FOR THE YEAR 2020

An ordinary resolution will be proposed at the AGM to consider and approve the report of the Board for the year 2020, the full text of which is set out in the Company's annual report for the year 2020 published on April 29, 2021.

VII. REPORT OF THE SUPERVISORY COMMITTEE FOR THE YEAR 2020

An ordinary resolution will be proposed at the AGM to consider and approve the report of the Supervisory Committee for the year 2020, the full text of which is set out in the Company's annual report for the year 2020 published on April 29, 2021.

LETTER FROM THE BOARD

VIII. REPORT OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS ON THEIR PERFORMANCE FOR THE YEAR 2020

In accordance with the relevant provisions of laws and regulations, such as the Company Law of the People's Republic of China, as well as other normative documents and the Articles, and the Working Policies of Independent Directors of the Wenzhou Kangning Hospital Co., Ltd. (《溫州康寧醫院有限公司獨立董事工作制度》), the independent non-executive Directors of the Company shall submit an annual work report to the annual general meeting of the Company to explain the performance of their duties. An ordinary resolution will be proposed at the AGM to consider and approve the work report of the independent non-executive Directors for the year 2020, which mainly includes the following matters:

- (a) The situation each of our independent non-executive Directors attending the meetings of the general meetings, the Board and the specialized committees under the Board in 2020;
- (b) How the Company cooperate with the independent non-executive Directors in carrying out their work; and
- (c) The work and opinions of the independent non-executive Directors in relation to connected transactions, use of proceeds from the IPO, declaration of dividends, compliance with the non-competition agreement by our controlling shareholders, disclosure of inside information and internal control, etc.

IX. PROPOSED APPOINTMENT OF MR. QIN HAO AS A NON-EXECUTIVE DIRECTOR

The nomination of Mr. QIN Hao (“**Mr. Qin**”) as the candidate of a non-executive Director of the Company and a member of the strategy and risk management committee of the Board was considered and approved at the Board meeting held on April 30, 2021, with a term commencing from the date of approval at the AGM and ending on the expiry of the term of the third session of the Board.

According to the Articles, the proposed appointment of a Director is subject to the approval by the Shareholders. The proposal will be put forward at the AGM for the Shareholders' consideration and approval by way of an ordinary resolution. If the appointment is approved, Mr. Qin will enter into a service contract with the Company. Mr. Qin will not receive any remuneration from the Company.

The biographical details of Mr. Qin are as follows:

Mr. Qin, aged 31, joined Shanghai Loyal Valley Investment Management Co., Limited (上海正心穀投資管理有限公司), a private equity investment company mainly invests in the fields of new consumption, healthcare and advanced manufacturing, in June 2017. He currently serves as a senior investment manager and is mainly responsible for the investment in pharmaceutical and healthcare industry. Mr. Qin graduated from Peking University in June 2014 with a bachelor's degree in medicine. He graduated from Fudan University in June 2017 with a master's degree in finance.

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Save as disclosed above, Mr. Qin does not hold any other positions with the Company or its subsidiaries as of the Latest Practicable Date. Mr. Qin did not serve as a director in any listed companies in the past three years, and does not have any relationship with any Directors, senior management, or substantial or controlling Shareholders of the Company.

As of the Latest Practicable Date, Mr. Qin has no interest in the Shares of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Qin has never been subject to any penalty by China Securities Regulatory Commission or other related securities regulatory authorities or any stock exchange. Save as disclosed above, the Board is not aware of any other information to be disclosed pursuant to Rule 13.51(2)(h) to 13.51(2)(v) of the Hong Kong Listing Rules or any other matter in relation to Mr. Qin that needs to be brought to the attention of the Shareholders.

X. GRANTING THE INCENTIVE SHARES TO CONNECTED PERSONS

Granting the Incentive Shares to Connected Persons

Pursuant to the Proposed Amendments to the Equity Incentive Scheme, the Board intends to grant reserved Incentive Shares to the Proposed Grantees, the details of the Proposed Grant are as follows:

1. The Grant Price: RMB10.47 per Share. The Grant Price is determined based on the fundamental purpose of promoting the development of the Company and safeguarding the interests of Shareholders, in accordance with the principle of “incentives with emphasis and effectiveness (重點激勵、有效激勵)” and with comprehensive reference to the following factors:
 - (i) the trading price of the Company’s H Shares at the date of proposed adoption of the Equity Incentive Scheme was approximately HK\$40.00 per Share (equivalent to approximately RMB32.50 per Share); and
 - (ii) the number of Incentive Shares under the Proposed Grant and the intended incentive effects.

The Grant Price of the Proposed Grant is the same as the grant price of the first grant and second grant of the Equity Incentive Scheme.

2. The number of grantees: 10 persons
3. The number of Incentive Shares to be granted: 455,588 Shares
4. The source of Incentive Shares: Non-tradable and Non-listed Domestic Shares issued to the Employees’ Shareholding Platform by the Company (the Proposed Amendments to the Equity Incentive Scheme will not lead to issuance of new Shares by the Company)

LETTER FROM THE BOARD

5. The list of Proposed Grantees:

Name	Title	The amount of Incentive Shares to be granted (RMB)	The number of Incentive Shares to be granted (Shares) ⁽¹⁾	Value of Incentive Shares to be granted (RMB) ⁽²⁾	As a percentage of the Incentive Shares Under the Proposed Grant	As a percentage of the total Incentive Shares under the Equity Incentive Scheme
Ms. WANG Lianyue	Director and General Manager	2,600,000	248,328	5,346,502	54.51%	10.09%
Ms. WANG Hongyue	Director and Chief Financial Officer	1,000,000	95,511	2,056,352	20.96%	3.88%
Mr. SUN Fangjun	Chairman of the Supervisory Committee	150,000	14,327	308,460	3.14%	0.58%
Mr. XU Yi	Vice General Manager	300,000	28,653	616,899	6.29%	1.16%
Mr. XIE Tiefan	Employee Representative Supervisor	50,000	4,776	102,827	1.05%	0.19%
Ms. WANG Biyu	Manager of Auditing and Supervision Department	50,000	4,776	102,827	1.05%	0.19%
Ms. XU Qunyan	Manager of Finance Department	50,000	4,776	102,827	1.05%	0.19%
Mr. GUAN Weilu	Assistant to President	200,000	19,102	411,266	4.19%	0.78%
Mr. SUN Hongbo	Attending Doctor	320,000	30,563	658,021	6.71%	1.24%
Ms. ZHANG Linghui	Director of Social Work Department	50,000	4,776	102,827	1.05%	0.19%
Total		<u>4,770,000</u>	<u>455,588</u>	<u>9,808,810</u>	<u>100%</u>	<u>18.52%</u>

Notes:

1. The number of Incentive Shares to be granted to the Proposed Grantees is determined based on “the amount of Incentive Shares to be granted” set out in the above table. If there is any difference between the total number and the sum of the figures preceding them in the above table, it is caused by rounding adjustments.
2. Value of Incentive Shares to be granted = [Minimum exit price for Incentive Shares to be granted under the Equity Incentive Scheme (RMB32) – grant price per Incentive Share (RMB10.47)] X number of Incentive Shares to be granted

The details of the roles of the Proposed Grantees and their contributions to the Company are as follows:

Ms. WANG Lianyue is the executive Director and general manager of the Company. She is primarily responsible for the overall hospital operation and business development of the Company. She joined the Company in January 1998 and has served as the general manager of the Company since September 2011. From 2018 to 2020, under her leadership, the Company’s operating hospitals increased to 24 from 18, and the number of operating beds increased to 7,483 from 5,140. In the next 5 years, the Company expects that the number of operating beds will continue to grow steadily and rapidly, which will rely on the hard work of Ms. WANG Lianyue.

Ms. WANG Hongyue is the executive Director and chief financial officer of the Company. She is primarily responsible for the overall financial management, capital investment and medical insurance management of the Company. She joined the Company in January 1996 and has served as the chief financial officer of the Company since September 2014. From 2018 to 2020, the investment and financing activities led by her enabled the revenue from operating the

LETTER FROM THE BOARD

Company's owned hospitals increased to RMB978.5 million in 2020 from RMB706.7 million in 2018, and the bank loan financing increased to RMB426.5 million in 2020 from RMB225.0 million in 2018 with an annualized interest rate of bank borrowings decreasing to 4.6% in 2020 from 5.4% in 2018, which is lower than the annualized interest rate of other companies in the same industry. In the next five years, the Company expects to continue to expand its business scale through mergers and acquisitions, and provide financial support for mergers and acquisitions through financing, and at the same time improves the management efficiency of medical insurance. These will rely on the hard work of Ms. WANG Hongyue.

Mr. SUN Fangjun is chairman of the Supervisory Committee of the Company. He is primarily responsible for supervising the Company's daily operations and management, Party building and hospital assessment. Mr. SUN Fangjun joined the Company in May 2011 and served as the vice president of the Company from May 2011 to September 2014. He was appointed as chairman of the Supervisory Committee in September 2014. From 2018 to 2020, he diligently and conscientiously supervised the Company's daily operating activities, led the Company's Party Branch upgrade to a Party Committee, and actively played the pioneering and exemplary role of a Party member in the Company's development. In the next 5 years, the Company will experience reassessment as a top tertiary specialized hospital and establish a benchmark for party building in private hospitals in China, all of which will rely on the hard work of Mr. SUN Fangjun.

Mr. XU Yi is a vice general manager of the Company. He is primarily responsible for assisting the general manager in the facility and information technology of the Company. Mr. Xu joined the Company in October 2002 and was appointed as a vice general manager of the Company in September 2014. From 2018 to 2020, the Company's information software research and development work led by him obtained a number of copyright patents. The sales revenue of information software developed under his leadership increased year by year. Hangzhou Jeremiah Information Technology Co., Ltd., a wholly-owned subsidiary of the Company, of which he is the general manager, was rated as a national high-tech enterprise in 2020. In the next 5 years, the Company expects to increase its investment in informatization research to develop leading psychiatric specialist software systems and psychosocial service systems, all of which will rely on the hard work of Mr. XU Yi.

Mr. XIE Tiefan is an employee Representative Supervisor of the Company. He is primarily responsible for monitoring the lawful compliance of the Company's operation. Mr. XIE Tiefan joined the Company in May 2000 and from May 2010 to September 2014, he served in various positions including the deputy director of the information department, the deputy director of the equipment department, the director of the equipment department and the manager of material purchasing department, where he was primarily responsible for equipment purchase and management. Mr. XIE Tiefan performed his duties diligently at various positions and contributed to the good operation of the departments he had served in and the healthy development of the Company.

Ms. WANG Biyu is the manager of auditing and supervision department of the Company. She joined the Company in 2013 as a financial manager. In January 2016, she was promoted as a deputy financial director. She has served as the manager of the auditing and supervision department of the Company since March 2018 and is primarily responsible for the internal audit work. Ms. WANG Biyu is careful and responsible in her work, has a wealth of financial knowledge and management experience, and has contributed to the Company's improvement of financial management mechanism.

Ms. XU Qunyan is the manager of finance department of the Company. She joined the Company in April 1995 and was promoted as the Assistant Accountant in 2001. Ms. XU Qunyan is primarily responsible for the cooperation of different departments. She effectively coordinates the work arrangements of various departments and contributes to the establishment of orderly internal mechanisms of the Company.

LETTER FROM THE BOARD

Mr. GUAN Weilu is the assistant to president of the Company. He served as the deputy chief of the general affairs department of the Company from 2010 to 2012. He served as the chief of the infrastructure department of the Company from 2013 to 2018. He has served as the assistant to president since 2019. Mr. GUAN Weilu is primarily responsible for the operation of the logistic department which provides strong support for the development of business departments.

Mr. SUN Hongbo is the attending doctor of the Company. He joined the Company in March 1995 as a psychiatrist. He obtained the qualification of practicing assistant physician in December 2001 and the qualification of practicing physician in December 2006 respectively. Mr. SUN Hongbo has served as the director of the psychiatric geriatric ward since 2007. In December 2011, he was appointed as the dean of the medical business in Yongjia Kangning Hospital by the General Hospital. He obtained the title of attending psychiatric physician (intermediate level) in September 2012. Mr. SUN Hongbo is dedicated to his work. His medical skills and ethics have been acknowledged by patients, and he has set an example for other medical staff of the Company.

Ms. ZHANG Linghui is the director of social work department of the Company. She joined the Company in 2008. She has served as the director of social work department for more than 11 years and is primarily responsible for assisting patients and their family. Ms. ZHANG Linghui's serious and meticulous work attitude has been recognized by patients and their family, and has contributed to the establishment of a positive social image of the Company.

The Remuneration Committee of the Board has reviewed the resolution of granting the Incentive Shares to connected persons and is of the opinion that the adjusted remuneration of the Proposed Grantees after receiving the Incentive Shares is fair and reasonable.

Determination on the Number of the Incentive Shares Granted to the Participants

The number of Incentive Shares to be granted to the Proposed Grantees (other than Ms. WANG Lianyue and Ms. WANG Hongyue) were determined mainly with reference to (i) the participant's positions and seniority; and (ii) (for medical staff) the participant's years of services.

The number of Incentive Shares to be granted to Ms. WANG Lianyue and Ms. WANG Hongyue were determined with reference to the difference between their respective remuneration and the remuneration of similar levels of senior management in companies listed in Shanghai Stock Exchange and Shenzhen Stock Exchange and engaged in similar line of businesses as the Group (i.e. the operation and management of a network of healthcare facilities) (the "**Comparable Companies**").

Based on the research on remuneration of specific level of senior management in the Comparable Companies, it is found that the senior managements' remuneration (with positions as director and general manager (or president)) ranged from RMB500,000 to RMB4,670,400 per annum for the financial year of 2020. Half of the senior managements' (with positions as director and general manager (or president)) remuneration of the Comparable Companies' were above RMB1 million for the financial year of 2020. Remuneration of Ms. WANG Lianyue (Director and general manager of the Company) for the financial year of 2020 amounts to RMB483,277, which falls below the aforesaid remuneration range. In addition, senior

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managements' remuneration (with positions as (among others) chief financial officer) ranged from RMB346,500 to RMB2,783,900 per annum for the financial year of 2020. More than half of the senior managements' (with positions as chief financial officer) remuneration of the Comparable Companies were above RMB1 million. Remuneration of Ms. WANG Hongyue (Director and chief Financial officer of the Company) for the financial year of 2020 amounts to RMB340,328, which falls below the aforesaid remuneration range. Therefore, the Company intends to grant certain number of Incentive Shares to Ms. WANG Lianyue and Ms. WANG Hongyue as a way to adjust their remuneration to match the remuneration range of the Comparable Companies.

Under the circumstance that listing is not realized for underlying Shares of the Equity Incentive Scheme within the validity period, and taking into account that: (i) the value of per Incentive Shares is RMB21.53 (which is equal to RMB32 (minimum exit price for Incentive Shares, please refer to the disclosure on pages 17 to 18 of this circular for details) minus RMB10.47 (grant price per Incentive Share)); (ii) the Incentive Shares granted under the Proposed Grant could be deemed as a four-year period incentive to the Proposed Grantees as the Equity Incentive Scheme is an incentive arrangement covered the years from 2018 to 2021; and (iii) Ms. WANG Lianyue's and Ms. WANG Hongyue's annual individual performance evaluations were graded as "up to standard" (for details of evaluation standards, please refer to the disclosure on page 16 of this circular) for 2018, 2019 and 2020, which means they could unlock all the Incentive Shares granted to them if their annual performance evaluation results are also "up to standard" in 2021 (which the Company believes are highly probable due to Ms. WANG Lianyue's and Ms. WANG Hongyue's continued dedication to the Company's development and their excellent performance in the past three years), the remuneration of Ms. WANG Lianyue and Ms. WANG Hongyue after receiving the Incentive Shares (the "**adjusted remuneration**") are calculated according to the following formula:

$$\text{Adjusted remuneration} = \text{Remuneration for 2018, 2019, 2020 or the estimated remuneration for 2021} + \frac{(\text{the value of per Incentive Shares} \times \text{the number of Incentive Shares to be granted})}{4 \text{ years}}$$

Based on the aforesaid formula, the adjusted remunerations of Ms. WANG Lianyue and Ms. WANG Hongyue are:

		2021	2020	2019	2018
WANG Lianyue	Remuneration before adjustment	470,000	483,277	437,986	454,709
	Adjusted remuneration	1,806,625	1,819,902	1,774,611	1,791,334
WANG Hongyue	Remuneration before adjustment	360,000	340,328	320,668	289,766
	Adjusted remuneration	874,088	854,416	834,756	803,854

Note: As at the Latest Practicable Date, the 2021 remunerations of Ms. WANG Lianyue and Ms. WANG Hongyue had not been finally determined, and such remuneration data were estimated figures.

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As shown in the above table, the adjusted remunerations of Ms. WANG Lianyue and Ms. WANG Hongyue from 2018 to 2021 are all within the remuneration range of the Comparable Companies.

According to the above, the Directors are of the view that the basis for determining the number of Incentive Shares to be granted to the Proposed Grantees is fair and reasonable.

As at the end of the 2021, apart from the Proposed Grant, the Company will not have intention, negotiation or arrangement to grant other incentive shares to the Proposed Grantees, which means the remuneration of the Proposed Grantees will not be further adjusted.

Description of the Equity Incentive Scheme

(1) Form of equity to be granted under the Equity Incentive Scheme

The Company set up the Employees' Shareholding Platform through the formation of a limited partnership, and the Employees' Shareholding Platform will hold the Incentive Shares for and on behalf of the Participants. When Incentive Shares are granted to the Participants, the Participants shall subscribe for corresponding interests in the limited partnership and contribute capital at the Grant Price, and indirectly become a Shareholder of the Company. The Participants are prohibited from transferring, pledging or otherwise disposing their respective Incentive Shares during the lock-up period. Incentive Shares to be granted to the Participants are entitled to the corresponding rights upon registration, including but not limited to dividend distribution and voting rights. The aforementioned rights are not subject to lock-up period. Upon the expiry of the lock-up period, unless otherwise agreed, Participants who have fulfilled the unlocking conditions can dispose the unlocked Incentive Shares by transferring their respective interests in the Partnership.

The funds used by the Proposed Grantees for subscribing for Incentive Shares and paying individual income tax shall be derived from their own funds. In respect of subscribing for Incentive Shares, the Company undertakes not to provide loans to the Proposed Grantees, nor any other financial aids, such as providing guarantee for their loans.

The Equity Incentive Scheme does not involve any share options related to new shares, thus does not constitute a share option scheme under Chapter 17 of the Hong Kong Listing Rules and is not subject to relevant rules.

(2) Unlocking Period arrangement of the Equity Incentive Scheme

Incentive Shares under the first grant shall be unlocked in one go after 48 months from the date of the first grant (June 29, 2018), i.e., to unlock in one go on June 28, 2022; Incentive Shares under the reserved grant shall be unlocked concurrently with those under the first grant unless the circumstances are exceptional where the amendment plan shall be made under the Equity Incentive Scheme.

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(3) *Granting conditions and Unlocking Conditions of the Incentive Shares*

(a) *Granting conditions of the Incentive Shares*

Incentive Shares may be granted to the Participants by the Company upon satisfaction of all of the following conditions. In other words, Incentive Shares cannot be granted to the Participants if any of the following granting conditions is not satisfied:

- (i) on grant of the Incentive Shares, labor contract or employment contract of the Participant is in the normal state of performance;
- (ii) the Participant can meet the qualifications confirmed by the Board; and
- (iii) the Participant has signed the equity incentive agreement.

(b) *Unlocking Conditions of the Incentive Shares*

Both performance evaluation targets at the Company's level and evaluation targets at the individual level shall be met for unlocking Incentive Shares, so that a Participant is enabled to unlock a specified ratio of Incentive Shares according to the evaluation result.

- (i) Performance evaluation targets at the Company's level

The Equity Incentive Scheme will take the financial indicators of the Company for year 2021 as performance evaluation targets. Achieving the performance evaluation targets is one of the Unlocking Conditions for the Participants and thereby determine the corresponding unlocking ratio. There are two performance evaluation targets at the Company's level: (1) based on the revenue from main businesses (including operating own hospitals and other healthcare related business) in the Company's audited consolidated financial statements for the year 2017 (RMB546.56 million), the growth rate of the revenue from main businesses in the audited consolidated financial statements for the year 2021 compared with that for the year 2017 shall not be less than 150%, i.e., shall not be less than RMB1,366.40 million; (2) based on the net profit attributable to Shareholders of the parent company in the audited consolidated financial statements of the Company for the year 2017 (being approximately RMB58 million after excluding the impact of non-recurrent factors such as foreign exchange losses, government subsidies and listing fees), the growth rate of the net profit attributable to Shareholders of the parent company (excluding the effect of non-recurring factors) in the audited consolidated financial statements of the Company for the year 2021 compared with that for the year 2017 shall not be less than 120%, i.e., shall not be less than RMB127.60 million. The above growth rates of revenue from main businesses and net profit attributable to Shareholders of the parent company were determined based on the strategic development targets set out in the Five-year Strategic Development Plan of the Company (2018-2022) and with reference to previous performance of the Company.

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After the announcement of the audited consolidated financial statements for the year 2021, based on the achievement of performance indicators and the position and amount of subscriptions of the Participants, the total amount of Incentive Shares that can be unlocked shall be determined according to the following ratios:

Achievement of performance indicators	Senior Management ⁽¹⁾	Subscription of over RMB200,000 (inclusive) ⁽²⁾	Subscription of less than RMB200,000 ⁽²⁾
Achievement of both two performance evaluation targets	100%	100%	100%
Achievement only one performance evaluation target	50%	75%	85%
Failure to achieve both performance evaluation targets	20%	50%	70%

Notes:

1. Senior Management includes Directors, Supervisors and senior management stipulated in the Articles.
2. Subscription amount is calculated at the same basis as that of the amount of Incentive Shares to be granted as disclosed in the page 10 of this circular.

(ii) Evaluation targets of Participants at the individual level

During the four years from 2018 to 2021, the Company performed annual individual performance evaluations for all Participants according to the five grades of excellent, A, B, C and D. If the annual individual performance evaluation result of a Participant is excellent/A/B grade, the annual individual performance of such Participants is assessed to be “up to standard”; if the annual individual performance evaluation result of the Participant is C/D grade, the annual individual performance for such Participant is assessed to be “not up to standard”.

If the evaluation of a Participant are all “up to standard” during the four years evaluation period from 2018 to 2021, the Participant can unlock all the Incentive Shares held by them as per unlockable total amount specified in the Equity Incentive Scheme. If a Participant experiences “not up to standard” during the four years evaluation period from 2018 to 2021, the Participant can unlock the Incentive Shares held by them based on the total amount of unlockable amount as follows:

Number of times not up to standard	Unlocking ratio based on unlockable amount
Once	75%
Twice	50%
Thrice	25%
Four times	0%

None of the Proposed Grantees were or are expected to be graded as “not up to standard” in the individual performance evaluations from 2018 to 2020 and in 2021.

(c) Treatment of locked Incentive Shares

Locked Incentive Shares shall be repurchased by the general partner of the Partnership concerned. The repurchase price shall be the paid-up contribution amount of a Participant, and the cash dividends received by the Participants during the Locked-up Period shall be deducted from the repurchase price. The Incentive Shares which may not be unlocked held by the general partner shall be handled according to “Liquidation of the general partner’s equity interest in the Partnership” in the Equity Incentive Scheme as set out on pages 18 to 19 of the circular.

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(d) Unlocking procedures for Incentive Shares

Before the Unlocking Date, the Company shall confirm whether the Participants have met the Unlocking Conditions. Upon confirmation by the Company, Participants who have met the Unlocking Conditions may dispose of unlocked Incentive Shares in their discretion in accordance with the terms of the Equity Incentive Scheme. As for Participants who have not met the Unlocking Conditions, their Incentive Shares shall be repurchased by the Employees' Shareholding Platform and shall be dealt with according to "Liquidation of the general partner's equity interest in the Partnership" under the Equity Incentive Scheme as set out on pages 18 to 19 of this circular.

(4) Exit mechanism upon expiration of the Unlocking Period of the Equity Incentive Scheme

(a) Revenue realization of the Incentive Shares held by the Participants

If the Incentive Shares held by the Participants through the Employees' Shareholding Platform expire during the Locked-up Period and the corresponding Unlocking Conditions are met, the following exit methods shall be implemented:

- (i) In the event that listing is not realized for underlying Shares of this Equity Incentive Scheme within the validity period, the Company have undertaken to assist the transfer of the Company's Shares reflecting the interests held by Participants through the Partnership to independent third parties within the validity period.

Participants must submit transfer applications to the general partner of the Partnership within 30 days prior to the transfer window period agreed with the Partnership each year. Such applications should specify their transfer sizes. The total number of the Company's Shares that a Participant requires the general partner to transfer is the product of the total number of Company's Shares held by Partnership at that time and the proportion of the Participant's equity interest in the Partnership. The general partner shall determine the timing and the price of a transfer during the transfer window period according to the negotiation with the transferee. After the Partnership has transferred the Company's Shares, the proceeds of such transfers of Shares net of tax withholding and Partnership fees in proportion to relevant interest in the Partnership will be distributed to each applicant for buying back the property share in the Partnership held by such Participant. Formalities of the above changes will be registered in the competent industry and commerce authorities in accordance with the relevant provisions of the Partnership agreement. When the Partnership transfers the Company's Shares at a price lower than RMB32 per Share, the relevant Participant(s) may require the de facto controllers of the Company to make up the difference between the actual transfer price and RMB32 per Share in cash. If the de facto controllers fail to pay the difference between the actual transfer price and RMB32 per Share to the Participant on a timely basis, the Company may deduct such amount from the dividend distribution and pay it to the Participant when the Company pays dividend to the de facto controllers. The Participant may require the de facto controllers to shoulder the default responsibility by submitting a lawsuit to the people's court with jurisdiction. These arrangements will enhance the incentive effect of this Equity Incentive Scheme and foster greater willingness for participation in the Equity Incentive Scheme. The de facto controllers of the Company will not directly or indirectly purchase the Company's Shares held by the Employees' Shareholding Platform. Therefore, the Board considers that these arrangements are fair and reasonable and beneficial to the Company and the Shareholders as a whole. The minimum exit price of the Incentive Shares under the Equity Incentive Scheme is RMB32 per Share, which is determined based on the trading price during the period of proposed adoption of the Equity Incentive Scheme of the H Shares of the Company.

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- (ii) If, within the validity period, the Shares involved in this Equity Incentive Scheme implement the listing and circulation plan, subject to compliance with relevant laws and regulations and requirements of relevant regulatory agencies and compliance with relevant regulations of the Articles of Associations, Participants may require the Partnership to sell the Company's Shares corresponding to his/her equity shares in order to gradually realize revenue from the equity shares.

Participants must submit share reduction applications to the general partner of the Partnership within 30 days prior to the reduction window period agreed with the Partnership each year. Such applications should specify their price ranges and sizes of the share reductions, and the general partner of the Partnership shall determine the timing and manner of the share reductions during the reduction window period. After the Partnership has disposed the Company's Shares, the proceeds of such transfers of Shares net of tax withholding and Partnership fees in proportion to relevant interest in the Partnership will be distributed to each applicant for buying back the property share in the Partnership held by such Participant. Formalities of the above changes will be registered in the competent industry and commerce authorities in accordance with the relevant provisions of the Partnership agreement. When the Partnership reduces holding in the Company's Shares at a price lower than RMB32 per Share, the relevant Participant(s) may require the de facto controllers of the Company to make up the difference between the Share reduction price and RMB32 per Share in cash.

The total number of the Company's Shares that a Participant requires the general partner of the Partnership to reduce is the product of the total number of Company's Shares held by Partnership at the time and the Participant's equity interest in the Partnership. The number of Shares of the Company that any Participant requires the general partner of the Partnership to dispose for a period of time must not exceed the product of the Total Share Reduction of the Participant and the percentage of reduced equity by the Partnership and/or the Participant allowed in accordance with any applicable laws, regulations or the Hong Kong Listing Rules during the period.

(b) Transfer of the Incentive Shares to specific targets by Participants

With the prior written consent of the general partner of the Partnership, the Participants may transfer his/her Incentive Shares Entitlement held in the Partnership to specific targets.

The Participants who transfer to a third party other than partners of the Partnership should notify the general partner and other limited partners of the Partnership 30 days in advance and obtain written consent from the same. The transfer price for transfer of Incentive Shares Entitlement by the Participants shall be negotiated between the transferor and the transferee. Under the same conditions, the general partner of the Partnership shall enjoy the right of first refusal; if the general partner of the Partnership waives the right of first refusal, the other limited partners shall enjoy the right of first refusal; if more than one limited partner are willing to purchase at the same time, the parties shall negotiate and determine their respective proportion of purchase. Failing to do so, the proportion of purchases will be determined based on the proportion of their contribution to the Partnership at the time of the transfer.

(c) Liquidation of the general partner's equity interest in the Partnership

Within 12 months after expiration of the Lock-up Period of the Equity Incentive Scheme, the Company shall repurchase at the price of RMB10.47 per Share and cancel the Incentive Shares held for the following reasons by the Partnership:

- (i) the reserved interests that have not granted to the Participants within 36 months;

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- (ii) the Incentive Shares Entitlement to be repurchased from the Participants that cannot be unlocked due to that the Company's performance level has not reached the performance evaluation target or has not met the qualifications for appointment or individual performance evaluation requirement as stipulated in this Equity Incentive Scheme; and
- (iii) the Incentive Shares Entitlement held in the event of a change as stipulated in this Equity Incentive Scheme.

When the Company repurchases such Incentive Shares as required under the Equity Incentive Scheme, it shall deduct the cash dividend received in respect of such Shares from the repurchase price.

Effects of the Proposed Grant according to the Proposed Amendments to the Equity Incentive Scheme on the shareholding structure of the Company

The table below sets forth the shareholding structure of the Company as at the Latest Practicable Date and immediately after the completion of the Proposed Grant:

Name of shareholder	As at the Latest Practicable Date		Immediately after the completion of the Proposed Grant	
	Number of shares	Percentage of total issued shares	Number of shares	Percentage of total issued shares
Number of Domestic Shares held by connected person	43,056,641	57.72%	43,400,480	58.18%
– GUAN Weili ⁽¹⁾	22,144,750	29.68%	22,393,078	30.02%
– WANG Lianyue	22,144,750	29.68%	22,393,078	30.02%
– WANG Hongyue ⁽²⁾	5,527,350	7.41%	5,622,861	7.54%
– Guangzhou GL Capital Investment Fund L.P. (“Defu Fund”) ⁽³⁾	12,051,541	16.15%	12,051,541	16.15%
– Guangzhou GL Capital GP L.P. ⁽⁴⁾	12,051,541	16.15%	12,051,541	16.15%
– Guangzhou Automobile Group Capital Co., Ltd. ⁽⁵⁾	12,051,541	16.15%	12,051,541	16.15%
– HOU Ming ⁽⁶⁾	12,051,541	16.15%	12,051,541	16.15%
– XU Yi ⁽⁷⁾	5,527,350	7.41%	5,622,861	7.54%
Number of Domestic Shares held by Employees' Shareholding Platform⁽⁸⁾	460,955	0.62%	5,367	0.01%
Number of Domestic Shares held by other Domestic Shareholders	11,742,404	15.74%	11,854,153	15.89%
Total number of issued Domestic Shares	55,260,000	74.07%	55,260,000	74.07%
Number of H Shares held by non-public Shareholders	309,000	0.41%	309,000	0.41%
– WANG Hongyue	309,000	0.41%	309,000	0.41%
Number of H Shares held by public Shareholders	19,031,300	25.51%	19,031,300	25.51%
Total number of issued H Shares	19,340,300	25.93%	19,340,300	25.93%
Total number of issued Shares	74,600,300	100%	74,600,300	100%

Notes:

- (1) Mr. GUAN Weili is the spouse of Ms. WANG Lianyue and therefore, Mr. GUAN Weili is deemed to be interested in the Domestic Shares held by Ms. WANG Lianyue, and Ms. WANG Lianyue is deemed to be interested in the Domestic Shares held by Mr. GUAN Weili by virtue of Part XV of the SFO.
- (2) Ms. WANG Hongyue is the general partner of Ningbo Xinshi Kangning Investment Management L.P. (“Xinshi Kangning”), which is a limited partnership, and holds approximately 34.57% in Xinshi Kangning. Therefore, by virtue of Part XV of the SFO, Ms. WANG Hongyue is deemed to be interested in all the Domestic Shares held by Xinshi Kangning in the Company.

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- (3) In April, 2021, Defu Fund entered into an equity transfer agreement with Central Enterprises Poor Regions Industry Investment Fund Co., Ltd. (中央企業貧困地區產業投資基金股份有限公司) (the “transferee”), pursuant to which, Defu Fund agreed to transfer 6,666,666 Domestic Shares to the transferee. The equity transfer is subject to the satisfaction of the conditions precedents to the equity transfer agreement. As at the Latest Practicable Date, the equity transfer has not been completed.
- (4) Guangzhou GL Capital GP L.P. is the general partner of Defu Fund, which is a limited partnership. Therefore, by virtue of Part XV of the SFO, Guangzhou GL Capital GP L.P. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.
- (5) Guangzhou Automobile Group Capital Co., Ltd. is a limited partner of Defu Fund, which holds approximately 52.45% interest in Defu Fund. Therefore, by virtue of Part XV of the SFO, Guangzhou Automobile Group Capital Co., Ltd. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.
- (6) According to the disclosure of interest form submitted by Mr. Hou Ming on 23 April 2021, he holds 99% and 95% interest in Guangzhou GL Capital GP L.P. and Beijing Defu Investment Company Limited (北京德福投資有限公司), respectively, and Beijing Defu Investment Company Limited (北京德福投資有限公司) holds 69.3% interest in Guangzhou Defu Investment Management Co., Ltd. (廣州德福投資管理有限公司). Guangzhou Defu Investment Management Company Limited (廣州德福投資管理有限公司) holds 1% interest in Guangzhou GL Capital GP L.P. Mr. Hou Ming also holds 0.7% interest in Guangzhou Defu Investment Management Company Limited (廣州德福投資管理有限公司). Guangzhou GL Capital GP L.P., as a general partner, holds 1.57% interest in Defu Fund. Mr. Hou Ming is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.
- (7) Mr. XU Yi is the spouse of Ms. WANG Hongyue, an executive Director, and therefore, Mr. XU Yi is deemed to be interested in the Domestic Shares held by Ms. WANG Hongyue by virtue of Part XV of the SFO.
- (8) Employees’ Shareholding Platform does not constitute the connected person of the Company.

Upon the completion of the Proposed Grant, the public float of the Company will be 25.51%, which is in compliance with Rule 8.08 of the Hong Kong Listing Rules.

Reasons for and Benefits of the Proposed Grant

The Board believes that the Proposed Grant will help further establish and optimize the Company’s long-term incentive mechanism. The current long-term incentive mechanism of the Company is mainly in the form of granting the Incentive Shares to incentivize the management and employees who made contributions to the significant development of the Company based on the appraisal results of individuals and the completion of the performance indicators of the Company so as to commend them for their contributions and retain them to further serve the continuous operations and development of the Company.

By granting rights and imposing obligations of Shareholders to the Proposed Grantees and setting up the indicators for performance appraisal of the Participants under the lock-up period arrangement, the Proposed Grant will effectively motivate the Proposed Grantees to participate in the Company’s business decision-making process and enhance their creativity in work, and establish a model which shares both benefits and risks among the Proposed Grantees, the Company and the Shareholders for the purpose of balancing the personal economic interests of the Proposed Grantees and the long-term interests of the Company and the Shareholders.

The Board is of the view that, (i) the Proposed Grantees include the general manager, Supervisors and senior management (including the chief financial officer) of the Company, which are all core team members who play a key role in the Company’s overall business and medium and long-term development. The purpose of the Proposed Grant is to commend them for their commitments and contributions to the the Company’s long-term growth and strategic sustainable development, including but not limited to increasing the scale of hospital

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operations, introducing good investment opportunities for the Company, optimizing the resource allocation of the Company, standardizing the daily operations of the Company, improving the informatisation management of the Company, and enhancing the reputation of the Company in the society; (ii) the list of the Proposed Grantees under the Proposed Grant is determined based on the appraisal indicators of the individuals and the due contributions made for the development of the Company, and the number of Incentive Shares to be granted to each of the Proposed Grantees is determined based on the criteria set out in “Determination on the Number of the Incentive Shares Granted to the Participants” on pages 12 to 14 of this circular; (iii) the Proposed Grant will increase the remuneration of the Participants by granting them the rights to subscribe for Incentive Shares at a low price. To the knowledge of the Directors, the remuneration of the general manager Ms. WANG Lianyue and the chief financial officer Ms. WANG Hongyue is lower than the remuneration of managers who hold the same position in Comparable Companies. Therefore, the Proposed Grant is equivalent to increasing their remuneration in the form of equity compensation, while enhancing the competitiveness of the Company’s remuneration package at the same time; (iv) the Proposed Grant will link the personal interests of the Participants to the Company’s performance and the interests of Shareholders, which will effectively promote the formation of a unified interest among Shareholders, the Company and the core team, and encourage all parties to pay attention to the Company’s long-term development and ensure the achievement of the Company’s development strategy and business objectives. Pursuant to the above factors, the Board considered that the terms and conditions for granting Incentive Shares to the Proposed Grantees are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

Implications of the Hong Kong Listing Rules

As (1) Ms. WANG Lianyue is a Director and general manager of the Company; (2) Ms. WANG Hongyue is the younger sister of Ms. WANG Lianyue and a Director of the Company; (3) Mr. SUN Fangjun and Mr. XIE Tiefan are Supervisors of the Company; (4) Mr. XU Yi is the spouse of Ms. WANG Hongyue; (5) Ms. WANG Biyu is the niece of Ms. WANG Lianyue and Ms. WANG Hongyue; (6) Ms. XU Qunyan is the younger sister of Mr. XU Yi; (7) Mr. GUAN Weilu is the younger brother of Mr. GUAN Weili (the Chairman and an executive Director of the Company); (8) Mr. SUN Hongbo is the nephew of Ms. WANG Lianyue and Ms. WANG Hongyue; and (9) Ms. ZHANG Linghui is the sister-in-law of Mr. GUAN Weili, according to Chapter 14A of the Hong Kong Listing Rules, the Participants are connected persons of the Company. Therefore, the Proposed Grant constitutes a non-exempt connected transaction of the Company and is subject to the reporting, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Proposed Grant is subject to the approval of independent Shareholders of the Company. The Company will submit an ordinary resolution and seek independent Shareholders’ approval for the Proposed Grant at the Annual General Meeting.

Directors Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue have abstained from voting due to their material interests in the Proposed Grant in the relevant Board resolution. Save as disclosed above, none of the Directors own any material interests in the Proposed Grant and no Director is required to abstain from voting on the relevant Board resolution.

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XI. PROPOSED AMENDMENTS TO THE EQUITY INCENTIVE SCHEME

To further implement the Equity Incentive Scheme for the purpose of commending the Participants for their contributions to the development of the Group and retain and motivate them to continue to make commitments and contributions to the significant development of the Group, without prejudice to the interests of the Company and the Shareholders as a whole, the Board, in consideration of the actual operating situation of the Company and market practice, intends to amend the post and scope for determining the Participants. Following the Proposed Amendments to the Equity Incentive Scheme, the scope of the Participants shall be extended to include all of the Directors, Supervisors and the general manager of the Company.

The details of the Proposed Amendments are as follows:

Original	Amended
1. Description of the Incentive Scheme	1. Description of the Incentive Scheme
(3) Basis for determining the Participants and the scope of the Participants	(3) Basis for determining the Participants and the scope of the Participants
(a) Basis for determining the Participants	(a) Basis for determining the Participants
(ii) Functional basis for determining the Participants	(ii) Functional basis for determining the Participants
The Participants of the Incentive Scheme shall include senior management of the Group, core technical (business) personnel, and other persons who, in the opinion of the Board, shall be incentivized.	The Participants of the Incentive Scheme shall include the <u>Directors, Supervisors,</u> senior management of the Group (<u>including the general manager</u>), core technical (business) personnel, and other persons who, in the opinion of the Board, shall be incentivized.

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Original	Amended
<p>(b) Scope of the Participants</p> <p>The Participants of the Incentive Scheme under the first grant comprise a total of 179 persons, including:</p> <ul style="list-style-type: none"> (i) Senior management of the Group; (ii) Core technical (business) personnel of the Group; and (iii) Other persons who, in the opinion of the Board, shall be incentivized. <p>The abovementioned Participants of the Incentive Scheme shall exclude all of the Directors, all of the Supervisors and the general manager of the Company. All Participants shall be employed in the Group and have signed labor contracts or employment contracts with the Group during the appraisal period of the Incentive Scheme.</p> <p>Participants under the reserved grant shall be determined with reference to the criteria under the first grant, and the Board shall determine the Participants and the amount of equity to be granted within 36 months upon consideration and approval of the Incentive Scheme at a general meeting.</p>	<p>(b) Scope of the Participants</p> <p>The Participants of the Incentive Scheme under the first grant comprise a total of 179 persons, including:</p> <ul style="list-style-type: none"> (i) Senior management of the Group; (ii) Core technical (business) personnel of the Group; and (iii) Other persons who, in the opinion of the Board, shall be incentivized. <p>The abovementioned Participants of the Incentive Scheme shall exclude all of the Directors, all of the Supervisors and the general manager of the Company. All Participants shall be employed in the Group and have signed labor contracts or employment contracts with the Group during the appraisal period of the Incentive Scheme.</p> <p>Participants under the reserved grant shall be determined with reference to the criteria under the first grant <u>include the Directors, Supervisors, senior management of the Group (including the general manager), core technical (business) personnel, and other persons who, in the opinion of the Board, shall be incentivized,</u> and the Board shall determine the Participants and the amount of equity to be granted within 36 months upon consideration and approval of the Incentive Scheme at a general meeting.</p>

For the details of the Equity Incentive Scheme, please refer to the circular of the Company dated May 30, 2018. Except for the above amendments, the other contents of the Equity Incentive Scheme remain unchanged. The Board believes that the Proposed Amendments to the Equity Incentive Scheme shall not have a material impact on the financial conditions and operating results of the Company.

LETTER FROM THE BOARD

Reasons for and Benefits of the Proposed Amendments to the Equity Incentive Scheme:

Prior to the Proposed Amendments to the Equity Incentive Scheme, the Participants of the Equity Incentive Scheme only included senior management and core technical (business) personnel of the Group. However, since the implementation of the Equity Incentive Scheme, the Board has noticed that certain Directors, Supervisors, the general manager and other individuals had made considerable contributions to the rapid business development and achievements of the Group (details of which are disclosed on pages 10 to 12 of this circular), and the Company also intends to commend and motivate them for their contributions. Therefore, it is proposed that the scope of the Participants shall be extended to include the Directors, Supervisors, senior management (including the general manager), core technical (business) personnel, and other persons who, in the opinion of the Board, shall be incentivized.

The Proposed Amendments to the Equity Incentive Scheme will further extend the scope of the Participants to benefit the core team members who play a key role in the performance growth and sustainable development of the Company, including the Directors, Supervisors and the general manager, and to attract and motivate them to stay in office and actively participate in the Company's development and construction, improve their work performance, and further promote the realization of the business objectives and sustainable development of the Company.

The Company will propose a special resolution at the Annual General Meeting to seek for Independent Shareholders' approval on (among others) the Proposed Amendments to the Equity Incentive Scheme.

Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue have abstained from voting due to their material interests in the Proposed Amendments to the Equity Incentive Scheme in the relevant Board resolution. Save as disclosed above, none of the Directors own any material interests in the Proposed Amendments to the Equity Incentive Scheme and no Director is required to abstain from voting on the relevant Board resolution.

LETTER FROM THE BOARD

XI. THE AGM AND PROXY ARRANGEMENT

The notice of the AGM is set out on pages 43 to 44 of this circular.

In accordance with Rule 13.39(4) of the Hong Kong Listing Rules and Article 101 of the Articles, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. An announcement on the poll results will be published by the Company after the AGM in the manner prescribed under Rule 13.39(5) of the Hong Kong Listing Rules.

A form of proxy for use at the AGM is sent to the Shareholders together with this circular. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.knhosp.cn). Whether or not you intend to attend the AGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible, and return the same to the registered office of the Company (for Domestic Shareholders) or Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders) but in any event not less than 24 hours before the time appointed for the holding of the AGM (i.e. before 2:00 p.m. on Thursday, June 17, 2021) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the AGM if you so desire.

As Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue have a material interest in the resolution in respect of granting the Incentive Shares to connected persons and the resolution in respect of the Proposed Amendments to the Equity Incentive Scheme to be proposed at the AGM, they will abstain from voting on the relevant resolutions at the AGM.

As of the Latest Practicable Date, Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue directly or indirectly hold 22,144,750, 22,144,750 and 5,836,350 voting Shares of the Company, respectively, representing approximately 29.68%, 29.68% and 7.82% of the total number of the Company's issued Shares, respectively. Mr. GUAN Weili is the spouse of Ms. WANG Lianyue. Hence, the total number of Shares to be abstained from voting on the resolution in respect of granting the Incentive Shares to connected persons and the resolution in respect of the Proposed Amendments to the Equity Incentive Scheme at the AGM would be 27,981,000 Shares, representing approximately 37.51% of the total issued share capital of the Company.

As of the Latest Practicable Date, to the best of the knowledge and belief of the Directors having made all reasonable enquiries, that save as disclosed herein, no other Shareholder shall be required to abstain from voting on any resolution to be proposed at the AGM, nor are there any other Shareholders that shall be required to abstain from voting for any resolution.

The Proposed Grant is subject to the Independent Shareholders' approval on the resolution in respect of the Proposed Amendments to the Equity Incentive Scheme and the resolution in respect of granting the Incentive Shares to connected persons. In case the resolution in respect of granting the Incentive Shares to connected persons is approved but the resolution in respect of the Proposed Amendments to the Equity Incentive Scheme is not approved, Incentive Shares will not be granted to the Proposed Grantees Ms. WANG Lianyue, Ms. WANG Hongyue, Mr. SUN Fangjun and Mr. XIE Tiefan. However, Incentive Shares will still be granted to the remaining six Proposed Grantees under the Proposed Grant, namely Mr. XU Yi, Ms. WANG Biyu, Ms. XU Quanyan, Mr. GUAN Weilu, Mr. SUN Hongbo and Ms. ZHANG Linghui under the Proposed Grant.

LETTER FROM THE BOARD

XII. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee and the letter from Gram Capital, which set out their respective recommendations on the grant of Incentive Shares to connected persons pursuant to the Proposed Amendments to the Equity Incentive Scheme, as well as major factors considered when arriving at such recommendations.

The Directors (including all independent non-executive Directors) consider that all resolutions set out in the AGM Notice for consideration and approval by Shareholders are in the interests of the Company and the Shareholders as a whole.

Having taking into account of the opinions from Gram Capital, the Independent Board Committee is of the view that the terms and conditions of (i) the resolution in respect of granting the Incentive Shares to connected persons; and (ii) the resolution in respect of the Proposed Amendments to the Equity Incentive Scheme to be proposed for consideration and approval by Independent Shareholders as set out in the AGM notice are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned, as well as in the interests of the Company and the Shareholders as a whole. As such, the Independent Board Committee recommends the Independent Shareholders to vote in favour of relevant resolutions.

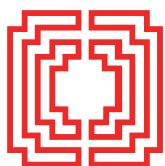
The Board also recommends the Shareholders to vote in favour of the resolutions in respect of (i) the financial report of the Company for the year 2020 (including the audited financial statements); (ii) the proposed profit distribution plan of the Company for the year 2020; (iii) the proposed financial budget of the Company for the year 2021; (iv) the appointment of the independent auditor of the Company for the year 2021; (v) the report of the Board of the Company for the year 2020; (vi) the report of the Supervisory Committee of the Company for the year 2020; (vii) the report of the independent non-executive Directors of the Company on their performance for the year 2020; and (viii) the proposed appointment of Mr. QIN Hao as a non-executive director.

By order of the Board
Wenzhou Kangning Hospital Co., Ltd.
GUAN Weili
Chairman

Zhejiang, the PRC

May 14, 2021

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.

(A joint stock limited liability company incorporated in the People's Republic of China)
Stock code: 2120

To Independent Shareholders

Dear Sir or Madam,

GRANTING THE INCENTIVE SHARES TO CONNECTED PERSONS

We are the Independent Board Committee of Wenzhou Kangning Hospital Co., Ltd. (the “**Company**”) to advise the independent Shareholders as to the connected transaction of granting the Incentive Shares to connected persons pursuant to the Proposed Amendments to the Equity Incentive Scheme, the details of which are set out in the letter from the Board of the circular of the Company dated May 14, 2021 to Shareholders (the “**Circular**”) of which this letter forms part. Unless the context requires otherwise, the terms used in this letter shall have the same meaning as those defined in the Circular.

Granting the Incentive Shares to connected persons pursuant to the Proposed Amendments to the Equity Incentive Scheme may constitute a connected transaction of the Company under the Hong Kong Listing Rules. Accordingly, granting the Incentive Shares to connected persons pursuant to the Proposed Amendments to the Equity Incentive Scheme is subject to the approval of Independent Shareholders at the AGM. Your attention is drawn to the letter from Gram Capital on pages 28 to 42 of the Circular, which contains its advice and recommendations on granting the Incentive Shares to connected persons pursuant to the Proposed Amendments to the Equity Incentive Scheme.

Having considered, among others, the terms of granting the Incentive Shares to connected persons pursuant to the Proposed Amendments to the Equity Incentive Scheme and the reasons considered and recommendations stated in the aforesaid letter from Gram Capital, we are of the view that the terms of granting the Incentive Shares to connected persons pursuant to the Proposed Amendments to the Equity Incentive Scheme are entered into on normal commercial terms, which are fair and reasonable for the Independent Shareholders, it is in the ordinary and usual course of business of the Company and in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions proposed at the AGM to approve granting the Incentive Shares to connected persons pursuant to the Proposed Amendments to the Equity Incentive Scheme and the transactions contemplated thereunder.

Yours faithfully,
*For and on behalf of
the Independent Board Committee*

*Independent non-executive
Director*
ZHAO Xudong

*Independent non-executive
Director*
ZHONG Wentang

*Independent non-executive
Director*
LIU Ning

May 14, 2021

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Grant for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

14 May 2021

To: The independent board committee and independent shareholders
of Wenzhou Kangning Hospital Co., Ltd.

Dear Sir/Madam,

CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Grant, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 14 May 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 16 April 2021 (the “**Announcement Date**”), the Board considered and approved (among others) (a) proposed amendments to the Equity Incentive Scheme; and (b) the proposal to grant the Incentive Shares to connected persons.

With reference to the Board Letter, the Proposed Grant constitutes a non-exempt connected transaction of the Company and is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. ZHAO Xudong, Ms. ZHONG Wentang and Mr. LIU Ning, being all of the independent non-executive Directors who are not a Proposed Grantee, has been formed to advise the Independent Shareholders on (i) whether the terms of the Proposed Grant are on normal commercial terms and are fair and reasonable; (ii) whether the Proposed Grant is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Proposed Grant and the transactions contemplated thereunder at the AGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

LETTER FROM GRAM CAPITAL

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Proposed Grant. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the 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 the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Proposed Grantees or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Grant. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this

LETTER FROM GRAM CAPITAL

opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Grant, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Proposed Grant

Information on the Group

As advised by the Directors, the principal activities of the Group are operating a network of healthcare facilities that primarily focus on providing psychiatric specialty care across various regions in the PRC.

On 29 May 2018, the Board passed a resolution in relation to the proposed adoption of the Equity Incentive Scheme and the authorization to the Board to deal with, in its absolute discretion, matters relating to the equity incentive scheme of the Company. The Equity Incentive Scheme was considered and approved at the Company's annual general meeting for 2017 on 13 June 2018 (the "**2017 AGM**").

According to the Equity Incentive Scheme, participants were proposed to be granted 2,460,000 Incentive Shares under the Incentive Scheme, of which 1,934,097 Shares will be granted initially and 525,903 Shares will be reserved (the "**Reserved Portion**").

After the consideration and approval at the 2017 AGM, and confirmation at the 7th meeting of the second session of the Board of the Company held on 29 June 2018 and confirmation at the 8th meeting of the second session of the Board of the Company held on 20 August 2018, 1,818,529 Incentive Shares were granted to 165 participants (i.e. four senior management and 161 core technical personnel) (the "**First Grant**"). After the consideration and approval at the 15th meeting of the second session of the Board of the Company convened on 26 August 2019, 180,516 Incentive Shares were granted to 23 participants (i.e. 17 core technical personnel and 6 other persons who, in the opinion of the Board, shall be incentivized) (the "**Second Grant**"). The grant price per aforesaid Incentive Share was RMB10.47.

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In August 2018, the Company completed a non-public issue of 2,460,000 domestic shares to Wenzhou Zhenyan Kangning Investment Management L.P., Wenzhou Jiamei Kangning Investment Management L.P., Wenzhou Enquan Kangning Investment Management L.P., Wenzhou Jiate Kangning Investment Management L.P. and Wenzhou Shouwang Kangning Investment Management L.P., being the Employees' Shareholding Platform, at a price of issuance of RMB10.47 per share. The total proceeds amounted to RMB25,756,200, of which RMB2,460,000 shall be included in the Company's registered capital and RMB23,296,200 shall be included in the Company's capital reserve.

Information on the Proposed Grantees

Details of the 10 Proposed Grantees are set out as follows:

Name	Relationship with the Group
Ms. WANG Lianyue	Director and General Manager
Ms. WANG Hongyue	Director and Chief Financial Officer
Mr. SUN Fangjun	Chairman of the Supervisory Committee
Mr. XU Yi	Vice General Manager
Mr. XIE Tiefan	Employee Representative Supervisor
Ms. WANG Biyu	Manager of Auditing and Supervision Department
Ms. XU Qunyan	Manager of Finance Department
Mr. GUAN Weilu	Assistant to President
Mr. SUN Hongbo	Attending Doctor
Ms. ZHANG Linghui	Director of Social Work Department

Detailed biography of the Proposed Grantees are set out under the section headed "Granting the Incentive Shares to Connected Persons" of the Board Letter.

Reasons for and benefits of the Proposed Grant

With reference to the Board Letter, the Board believes that the Proposed Grant will help further establish and optimize the Company's long-term incentive mechanism, attract and retain talent, fully mobilize the enthusiasm of the Company's Directors, Supervisors, senior management, middle management, and core technical (business) personnel and other persons who, in the opinion of the Board, shall be incentivized, effectively combine the interests of Shareholders, the interests of the Company and the personal interests of the core team, so as to ensure all parties will pay attention to the long-term development of the Company and enhance its operating efficiency.

We also noted from the Company's circular dated 30 May 2018 that the Incentive Scheme has been formulated to further refine the corporate governance structure of the Company, establish and optimise the Company's long-term incentive and restraint mechanism, attract and motivate professional management talents and core personnel, fully mobilize their enthusiasm and creativity, effectively enhance core team cohesion and core corporate competitiveness,

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better mobilize the enthusiasm of employees of the Group, and effectively integrate Shareholders' interests, the Company's interests and interests of the core team members so that the parties will make joint efforts for the Company's long-term development and ensure the realization of the Company's development strategy and operation objectives. We consider that the purpose of the Proposed Grant is in line with the purpose of the Incentive Scheme.

As the Incentive Shares are Domestic Shares, which indicated the shares issued by the Company to investors inside the PRC for subscription in Renminbi according to the Company's articles and association, we searched companies which listed on Shanghai Stock Exchange and Shenzhen Stock Exchange to assess if the grant of restricted shares is a common practice among such listed companies. Based on our independent research, we noted that there were approximately 400 companies (which listed on Shanghai Stock Exchange and Shenzhen Stock Exchange) announced to grant restricted shares to their personnel and employees during one year period immediately prior to the Announcement Date, representing approximately 9% to the total number of listed companies on Shanghai Stock Exchange and Shenzhen Stock Exchange as at 31 March 2021. Accordingly, we consider that it is a common practice for companies (which listed on Shanghai Stock Exchange and Shenzhen Stock Exchange) to grant restricted shares to their personnel and employees.

Having considered that (i) the Proposed Grantees are Directors and senior managements of the Group who has contributed to the growth and development of the Group; (ii) it is a common practice for companies (which listed on Shanghai Stock Exchange and Shenzhen Stock Exchange) to grant restricted shares for their personnel and employees; and (iii) there will not be any actual cash paid by the Group to the Proposed Grantees under the Proposed Grant, we concur with the Directors that the Proposed Grant is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Proposed Grant

On 16 April 2021, the Board considered and approved (among others) (a) proposed amendments to the Equity Incentive Scheme; and (b) the proposal to grant the Incentive Shares to connected persons.

Further information of the Proposed Grant is set out below:

1. Grant Price: RMB10.47 per share
2. The number of grantees: 10
3. The number of Incentive Shares to be granted: 455,588
4. The source of Incentive Shares: Non-tradable and Non-listed Domestic Shares issued to the Employees' Shareholding Platform by the Company

LETTER FROM GRAM CAPITAL

A. *Number of Incentive Shares*

The Company proposed to grant 455,588 Incentive Shares to the Proposed Grantees as follows:

Name	Relationship with the Group	The number of Incentive Shares	% to the total share capital of the Company as at the Latest Practicable Date
Ms. WANG Lianyue	Director and General Manager	248,328	0.3329
Ms. WANG Hongyue	Director and Chief Financial Officer	95,511	0.1280
Mr. SUN Fangjun	Chairman of the Supervisory Committee	14,327	0.0192
Mr. XU Yi	Vice General Manager	28,653	0.0384
Mr. XIE Tiefan	Employee Representative Supervisor	4,776	0.0064
Ms. WANG Biyu	Manager of Auditing and Supervision Department	4,776	0.0064
Ms. XU Qunyan	Manager of Finance Department	4,776	0.0064
Mr. GUAN Weilu	Assistant to President	19,102	0.0256
Mr. SUN Hongbo	Attending Doctor	30,563	0.0410
Ms. ZHANG Linghui	Director of Social Work Department	4,776	0.0064
Total		455,588	0.6107

Note: Any difference between the figures shown as total and the sum of the corresponding figures above result from the rounding of the above data.

Upon our request, the Directors advised that the number of Incentive Shares to be granted to the Proposed Grantees (other than Ms. Wang Lianyue and Ms. Wang Hongyue) were determined mainly with reference to (i) the participant's positions and seniority; and (ii) (for medical staff) the participant's years of services (the "Bases").

As confirmed by the Directors, the basis for determination of numbers of Incentive Share to be granted under the Proposed Grant (other than for Directors) was the same as the basis for determination of numbers of Incentive Share granted under the First Grant and the Second Grant.

For our due diligence purpose, we obtained assessment records for the First Grant, the Second Grant and the Proposed Grant and name list of the participants under the First Grant, the Second Grant and the Proposed Grant. We randomly selected 12 participants

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from the First Grant and the Second Grant and requested the Directors to provide number of Incentive Shares granted with determination basis. We noted that the bases for determination of numbers of Incentive Share to be granted under the First Grant, the Second Grant and the Proposed Grant (other than for Directors) were same and in line with the Bases. As the selected 12 participants covered all levels of positions as categorized under the Bases and we consider we can form our view based on the sampling which are sufficient and representative.

Basis for the determination of Ms. Wang Lianyue's and Ms. Wang Hongyue's numbers of Incentive Shares

Ms. Wang Lianyue is the executive Director and general manager of the Company. She is primarily responsible for the overall hospital operation and business development of the Company. She joined the Company in January 1998 and has served as the general manager of the Company since September 2011. From 2018 to 2020, under her leadership, the Company's operating hospitals increased from 18 to 24, and the number of operating beds increased from 5,140 to 7,483. In the next 5 years, the Company expects that the number of operating beds will continue to grow steadily and rapidly, which will rely on the hard work of Ms. Wang Lianyue.

Ms. Wang Hongyue is the executive Director and chief financial officer of the Company. She is primarily responsible for the overall financial management, capital investment and medical insurance management of the Company. She joined the Company in January 1996 and has served as the chief financial officer of the Company since September 2014. From 2018 to 2020, the investment and financing activities led by her enabled the revenue from operating the Company's owned hospitals increased to RMB978.5 million in 2020 from RMB706.7 million in 2018, and the bank loan financing increased to RMB426.5 million in 2020 from RMB225.0 million in 2018 with an annualized interest rate of bank borrowings decreasing to 4.6% in 2020 from 5.4% in 2018, which is lower than the annualized interest rate of other companies in the same industry. In the next five years, the Company expects to continue to expand its business scale through mergers and acquisitions, and provide financial support for mergers and acquisitions through financing, and at the same time improves the management efficiency of medical insurance. These will rely on the hard work of Ms. Wang Hongyue.

As further advised by the Directors, numbers of Incentive Shares to be granted to Ms. Wang Lianyue and Ms. Wang Hongyue were determined with reference to their respective remuneration and the remuneration of similar levels of senior management in companies listed in Shanghai Stock Exchange & Shenzhen Stock Exchange and engaged in similar line of businesses as the Group (i.e. the operation and management of a network of healthcare facilities). For our due diligence purpose, we searched for listed companies which met the aforesaid criteria (i.e. companies listed in Shanghai Stock Exchange & Shenzhen Stock Exchange and

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engaged in similar line of businesses) and are exhaustive, sufficient, fair and representative. The table below sets out the summary of our findings in respect of remuneration of specific level of senior management in such listed company:

Company name (Stock code)	Principal business	Position & annual remuneration for FY2018 to FY2020 (Note 1)	Share incentive scheme adopted since 2018
Yihua Healthcare Co.,Ltd. (000150.SZ)	The company has established two core business: medical institution operation and services; and retirement community operation and services. It strives to gradually develop an integrated medical and retirement service operation system by building a national comprehensive medical service platform and a chain retirement service community. In the meantime, the company will extend to the fields of medical professional engineering, health care & rehabilitation, and internet healthcare, so as to build a complete, coordinated and efficient medical and retirement service ecosystem.	Director & General Manager: FY2020: RMB500,000 FY2019: RMB440,000 FY2018: RMB463,700 Director, Board Secretary & Chief Financial Officer (the “ Former CFO ”) (Note 2) FY2018: RMB370,300	Share option scheme adopted in 2018 Number of share options to be granted to total then issued shares: The Former CFO: 0.08% Chairman (other senior management): 0.30%
Xi'an International Medical Investment Company Limited (000516.SZ)	The company is primarily engaged in the provision of broader healthcare services and the application of modern medical technologies. Currently, the company is operating a number of medical institutions and hospitals, and promoting the application and commercialization of medical technologies by advancing the Internet Plus healthcare model, building a medical consortium and developing stem cell technology. Focusing on its principal business and integrating medical services, teaching, scientific research, health management and rehabilitation care, the company will make full use of the existing medical service platform to scale up medical services, build up a broad healthcare industry chain, promote organic growth and expansion, and enhance core competitiveness and sustainable profitability, with a view to developing into a leading health management group that provides full life cycle medical services.	Director & President (the “ Staff A ”): FY2020: RMB600,000 FY2019: RMB600,000 FY2018: RMB600,000 Chief Financial Officer (the “ Staff B ”): FY2020: RMB450,000 FY2019: RMB450,000 FY2018: RMB450,000	Restricted A shares scheme adopted in 2021 Number of shares to be granted to total then issued shares: The Staff A: 0.01% The Staff B: 0.01% Other senior management: 0.01%

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Company name (Stock code)	Principal business	Position & annual remuneration for FY2018 to FY2020 (Note 1)	Share incentive scheme adopted since 2018
Meinian Onehealth Healthcare Holdings Co., Ltd. (002044.SZ)	As a healthcare service agency that provides professional health examination and health consultation, the company is mainly engaged in early disease screening and performing comprehensive, reliable and accurate examinations. Based on healthcare big data, it also provides corporate and individual customers with high-quality health management services, covering professional disease prevention, health protection, medical butler service, etc. Focusing on health examination and integrating health consultation, health assessment and health intervention, the company aims to build the largest personal health big data platform in China.	Director & President: FY2020: RMB3,680,000 FY2019: RMB4,800,000 FY2018: RMB3,000,000 Senior Vice President & Chief Financial Officer: FY2020: RMB1,005,900 FY2019: RMB1,200,000 (Chief Financial Officer only) FY2018: RMB1,000,000 (Chief Financial Officer only)	N/A
Jiangsu Aoyang Health Industry Co., Ltd. (002172.SZ)	The company is mainly engaged in (1) healthcare business (including medical services and pharmaceutical distribution) and (2) chemical fiber business. In terms of medical services, the company has developed a coordinated development model integrating healthcare, rehabilitation, elderly care and nursing, which is underpinned by 澳洋醫院總院 (General Aoyang Hospital*) and supplemented by 澳洋醫院三興分院 (Sanxing Branch of Aoyang Hospital*), 順康醫院 (Shunkang Hospital*), 港城康復醫院 (Gangcheng Rehabilitation Hospital*), 優居壹佰護理院 (Youju 100 Nursing Home*), and 張家港澳洋護理院 (Zhangjiagang Aoyang Nursing Home*).	Chairman & General Manager: FY2020: RMB567,300 FY2019: RMB419,600 FY2018: RMB4,022,500 (Note 3) Director & Chief Financial Officer: FY2020: RMB346,500 FY2019: RMB388,600 FY2018: RMB1,474,200	N/A

LETTER FROM GRAM CAPITAL

Company name (Stock code)	Principal business	Position & annual remuneration for FY2018 to FY2020 (Note 1)	Share incentive scheme adopted since 2018
Innovative Medical Management Co., Ltd. (002173.SZ)	The company is mainly engaged in providing high-quality medical services. The company has three wholly-owned hospital subsidiaries.	President & Chief Financial Officer: FY2020: RMB1,365,600 FY2019: RMB1,170,600 FY2018: RMB670,000 (President only in FY2018) Chief Financial Officer & Vice President: FY2018: RMB1,200,000	N/A
Aier Eye Hospital Group Co., Ltd. (300015.SZ)	As a professional ophthalmic chain, the company is mainly engaged in the diagnosis and treatment of various ophthalmic diseases, ophthalmic surgical services and medical optometry. As of now, its medical network has spread across mainland China, Hong Kong, Europe, the United States and Southeast Asia, forming a strategic landscape for global development.	Director & General Manager (the "Staff C"): FY2020: RMB1,057,200 FY2019: RMB1,057,200 FY2018: RMB1,034,700 Deputy General Manager & Chief Financial Officer (the "Staff D"): FY2020: RMB680,000 FY2019: RMB674,600 FY2018: RMB689,200	Restricted A shares scheme adopted in 2021 Number of shares to be granted to total then issued shares: The Staff C: 0.0043% The Staff D: 0.0037% Other senior management: 0.0037%
Topchoice Medical Co., Inc. (600763.SH)	The company is principally engaged in providing medical services. It is committed to building a large dental medical group that has a sense of mission, perfectly combines medical spirit and scientific spirit, and integrates clinical study, scientific research and teaching. At present, the company has 50 dental care institutions in operation.	Director & General Manager: FY2020: RMB788,600 FY2019: RMB482,400 FY2018: RMB420,000 Chief Financial Officer (Note 4): FY2018: RMB195,000	N/A
LANHAI MEDICAL INVESTMENT CO., LTD. (600896.SH)	During the FY2020 reporting period, the company focused on developing high-end medical services, and had two comprehensive clinics put into operation and two specialized hospitals and one general hospital under construction.	Director & President: FY2020: Information not available FY2019: RMB4,051,800 FY2018: RMB1,651,090 Director & Chief Financial Officer & Vice President: FY2020: RMB2,368,000 FY2019: RMB1,760,000 FY2018: RMB452,700	N/A

LETTER FROM GRAM CAPITAL

Company name (Stock code)	Principal business	Position & annual remuneration for FY2018 to FY2020 (Note 1)	Share incentive scheme adopted since 2018
Guangzhou Kingmed Diagnostics Group Co., Ltd. (603882.SH)	The company is a medical diagnosis information integration service provider focusing on third-party medical testing and pathological diagnosis outsourcing services. The company has established a number of central laboratories and built an extensive network of regional central laboratories and rapid response laboratories across China (including Hong Kong), covering 90% of China's population.	Chairman & General Manager: FY2020: RMB4,670,400 FY2019: RMB1,858,300 FY2018: RMB1,444,900 Director & Deputy General Manager & Chief Financial Officer & Board Secretary: FY2020: RMB2,783,900 FY2019: RMB936,000 FY2018: RMB982,700	Restricted A shares scheme adopted in 2020 Number of shares to be granted to total then issued shares: Senior management: Nil
The Company		<p>Ms. Wang Lianyue (Director & General Manager): FY2020: RMB483,277 FY2019: RMB437,986 FY2018: RMB454,709 Average: RMB458,657</p> <p>Ms. Wang Hongyue (Director & Chief Financial Officer): FY2020: RMB340,328 FY2019: RMB320,668 FY2018: RMB289,766 Average: RMB316,921</p>	The Incentive Scheme

Notes:

1. Values of incentive securities were not considered. Remuneration of above-mentioned staff of the Comparables may not be a full financial year remuneration.
2. The staff resigned in July 2019. No remuneration information of chief financial officer was disclosed in annual report for FY2020.
3. The general manager resigned on 19 November 2018 and a new general manager was appointed with effect from 19 November 2018. Therefore, we only refer the remuneration of the resigned general manager for FY2018.
4. The staff resigned in September 2019. No remuneration information of chief financial officer was disclosed in annual report for FY2020.

LETTER FROM GRAM CAPITAL

Based on the above table, the senior managements' remuneration (with positions as director & general manager (or president)) ranged from RMB500,000 to RMB4,670,400 per annum for FY2020, with an average of approximately RMB1.65 million per annum. Half of the senior managements' (with positions as director & general manager (or president)) remuneration of the comparable companies' were above RMB1 million for FY2020. Remuneration of Ms. Wang Lianyue (Director & General Manager) for FY2020 falls below the aforesaid remuneration range.

In addition, senior managements' remuneration (with positions as (among others) chief financial officer) ranged from RMB346,500 to RMB2,783,900 per annum for FY2020, with an average of approximately RMB1.29 million per annum. More than half of the senior managements' (with positions as (among others) chief financial officer) remuneration of the comparable companies were above RMB1 million. Remuneration of Ms. Wang Hongyue (Director & Chief Financial Officer) for FY2020 falls below the aforesaid remuneration range.

According to the Equity Incentive Scheme, if the Incentive Shares held by the Participants through the Employees' Shareholding Platform expire during the Locked-up Period and the corresponding Unlocking Conditions are met, the following exit methods shall be implemented:

- In the event that listing is not realized for underlying Shares of the Equity Incentive Scheme within the validity period, the Company have undertaken to assist the transfer of the Company's Shares reflecting the interests held by Participants through the Partnership to independent third parties within the validity period. The minimum exit price of the Incentive Shares under the Incentive Scheme is RMB32 per Share. (The "**Scenario I**")
- If, within the validity period, the Shares involved in the Equity Incentive Scheme implement the listing and circulation plan (i.e. the listing on a recognized stock market of any Incentive Shares), subject to compliance with relevant laws and regulations and requirements of relevant regulatory agencies and compliance with relevant regulations of the Articles of Associations, Participants may require the Partnership to sell the Company's Shares corresponding to his/her equity shares in order to gradually realize revenue from the equity shares. (The "**Scenario II**")

Pursuant to the Equity Incentive Scheme, the Locked-up Period of the Incentive Shares granted to a Participant is 48 months from the date the Participant is granted the Incentive Shares. Incentive Shares under the first grant shall be unlocked in one go after 48 months from the date of the first grant; Incentive Shares under the reserved grant shall be unlocked concurrently with those under the first grant unless the circumstances are exceptional where the amendment plan shall be made under the Incentive Scheme.

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Both performance evaluation targets at the Company's level (i.e. the Company's audited revenue and net profit attributable to Shareholders of the parent company for the year ending 31 December 2021 as compared to those for the year ended 31 December 2017) and evaluation targets at the individual level (i.e. annual individual performance evaluations) shall be met for unlocking Incentive Shares, so that a Participant is enabled to unlock a specified ratio of Incentive Shares according to the evaluation result.

As advised by the Directors, as the First Grant took place on 29 June 2018, the unlocking date of the Incentive Shares will be late June 2022. As such, there will be approximately 14 months from the date of Proposed Grant to the unlocking date.

Despite that there will be approximately 14 months from the date of Proposed Grant to the unlocking date, we deem the Incentive Shares as a four-year period incentive after taking into account of the following factors:

- (i) the Directors advised that the Incentive Shares is a "at least four-year (i.e.2018-2021) incentive arrangement";
- (ii) the First Grant took place on 29 June 2018;
- (iii) the Incentive Shares under the first grant shall be unlocked in one go after 48 months from the date of the first grant;
- (iv) both performance evaluation targets at the Company's level (i.e. the Company's audited revenue and net profit attributable to Shareholders of the parent company for the year ending 31 December 2021 as compared to those for the year ended 31 December 2017) and evaluation targets at the individual level (i.e. annual individual performance evaluations) shall be met for unlocking Incentive Shares;
- (v) according to (iv) above, the evaluation targets at the Company's level only took into account of the Company's audited revenue and net profit attributable to Shareholders of the parent company for the year ending 31 December 2021 as compared to those for the year ended 31 December 2017;
- (vi) according to Ms. Wang Lianyue's and Ms. Wang Hongyue's annual individual performance evaluations, both of them were graded as A for 2018, 2019 and 2020.

Under Scenario I, after taking into account of the value of Incentive Shares (i.e. $\text{RMB}21.53 = \text{RMB}32.00 - \text{RMB}10.47$), adjusted average remunerations of Ms. Wang Lianyue of approximately $\text{RMB}1.80$ million (calculated by $\text{RMB}458,657 + \text{RMB}21.53$ per Share \times 248,328 Incentive Shares/4 years) and Ms. Wang Hongyue of approximately $\text{RMB}831,000$ (calculated by $\text{RMB}316,921 + \text{RMB}21.53$ per Share \times 95,511 Incentive Shares/4 years) fall within the afore-mentioned ranges. Accordingly, we consider the number of Incentive Shares to be granted to Mr. Wang Lianyue and Ms. Wang Hongyue to be reasonable under Scenario I.

LETTER FROM GRAM CAPITAL

Having considered above analyses (including Ms. Wang Lianyue's and Ms. Wang Hongyue's contribution, salary levels as compared to relevant levels staffs in other peers as listed above) and that the Directors consider the Scenario II indicate another milestones of the Company, we consider the number of Incentive Shares to be granted to each Proposed Grantee to be fair and reasonable.

B. The Grant Price

With reference to the Board Letter, the Grant Price of the Proposed Grant shall be RMB10.47 per Share.

As confirmed by the Directors, the Grant Price of the Proposed Grant is the same as the grant price of the First Grant and Second Grant, grantees under which are not connected persons of the Company.

The Grant Price of RMB10.47 per Share represented (i) a discount of approximately 51.2% to the closing price of HK\$25.50 (or approximately RMB21.44 based on RMB:HK\$ of 0.84060) per H Share as quoted on the Stock Exchange on the Announcement Date; (ii) a discount of approximately 67.7% to the closing price of HK\$38.50 (or approximately RMB32.46 based on RMB:HK\$ of 0.84310) per H Share as quoted on the Stock Exchange on 29 June 2018; (iii) a discount of approximately 67.5% to the closing price of HK\$35.8 (or approximately RMB32.21 based on RMB:HK\$ of 0.89983) per H Share as quoted on the Stock Exchange on 26 August 2019.

Having considered that (i) the Grant Price are the same to the Connected Grantees and all other grantees (being not connected persons); and (ii) the Grant Price represented a smaller discount to the closing price of the Shares as at the Announcement Date as compared to its discount to the closing prices of the Shares as at the dates of First Grant and Second Grant, we consider the Grant Price to be fair and reasonable.

C. Other terms

As the Proposed Grant will be conducted pursuant to the Equity Incentive Scheme, the terms of the Proposed Grant will be the same as terms of the First Grant and Second Grant.

Having considered the principal terms of the Proposed Grant as highlighted above and that save as number of Incentive Shares to be granted may be different, other terms of the Proposed Grant are the same as terms of the First Grant and Second Grant, we are of the opinion that the terms of the Proposed Grant are fair and reasonable.

LETTER FROM GRAM CAPITAL

3. Potential dilution of the shareholding interests of the existing public Shareholders

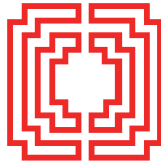
As aforementioned, the 455,588 Proposed Grant represent approximately 0.6107% of the total issue Shares as at the Latest Practicable Date. In addition, the source of Incentive Shares is Non-tradable and Non-listed Domestic Shares issued to the Employees' Shareholding Platform by the Company (the issuance of which took place in 2018) and therefore the Proposed Grant of Incentive Shares will not lead to issuance of new Shares by the Company.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Grant are on normal commercial terms and are fair and reasonable; and (ii) the Proposed Grant is conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the AGM to approve the Proposed Grant and the transaction contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.



溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.

(A joint stock limited liability company incorporated in the People's Republic of China)
Stock code: 2120

**NOTICE OF THE ANNUAL GENERAL MEETING FOR THE YEAR 2020
AND THE CLOSURE OF THE REGISTER OF MEMBERS**

NOTICE IS HEREBY GIVEN that the annual general meeting (the “AGM”) for the year 2020 of Wenzhou Kangning Hospital Co., Ltd. (the “Company”) will be held at Conference Room, 12/F, Building 1, Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang Province, the People's Republic of China (the “PRC”) at 2:00 p.m. on Friday, 18 June, 2021 for the purposes of considering and, if thought fit, passing the following resolutions. In this notice, unless the context otherwise requires, terms used herein shall have the same meanings as defined in the Company's circular dated May 14, 2021 (the “Circular”).

RESOLUTIONS TO BE CONSIDERED AND APPROVED AT THE AGM

By way of ordinary resolutions:

- (1) To consider and approve the financial report of the Company for the year 2020 (including the audited financial statements);
- (2) To consider and approve the proposed profit distribution plan of the Company for the year 2020;
- (3) To consider and approve the proposed financial budget of the Company for the year 2021;
- (4) To consider and approve the appointment of the independent auditor of the Company for the year 2021;
- (5) To consider and approve the report of the Board of the Company for the year 2020;
- (6) To consider and approve the report of the Supervisory Committee of the Company for the year 2020;
- (7) To consider and approve the report of the independent non-executive Directors of the Company on their performance for the year 2020;
- (8) To consider and approve the proposed appointment of Mr. QIN Hao as a non-executive director; and
- (9) To consider and approve the grant of Incentive Shares to connected persons.

By way of special resolution:

- (10) To consider and approve the Proposed Amendments to the Equity Incentive Scheme.

Details of the above resolutions proposed at the AGM are contained in the Circular, which is available on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the website of the Company (www.knhosp.cn).

By order of the Board
Wenzhou Kangning Hospital Co., Ltd.
GUAN Weili
Chairman

Zhejiang, the PRC

May 14, 2021

As of the date of this notice, the executive directors of the Company are Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue; the non-executive director of the Company is Mr. YANG Yang; and the independent non-executive directors of the Company are Mr. ZHAO Xudong, Ms. ZHONG Wentang and Mr. LIU Ning.

NOTICE OF THE ANNUAL GENERAL MEETING FOR THE YEAR 2020

Notes:

ATTENDEES OF THE AGM

1. Eligibility and Registration Procedures for Attending the AGM

- (a) Closure of Register of Members. For the purpose of ascertaining Shareholders who are entitled to attend and vote at the AGM, the register of members of the Company is closed from Tuesday, 15 June, 2021 to Friday, June 18, 2021 (both days inclusive).
- (b) Domestic Shareholders and H Shareholders whose names appear on the register of members of the Company after the close of business on Friday, June 11, 2021 are entitled to attend and vote in respect of all resolutions to be proposed at the AGM.
- (c) H Shareholders who wish to attend the AGM shall lodge their share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Limited before 4:30 p.m. on Friday, June 11, 2021 for registration.
- (d) A Shareholder or his/her/its proxy shall produce proof of identity when attending the meeting. If a Shareholder is a legal person, its legal representative or other persons authorized by the board of directors or other governing bodies of such Shareholder may attend the AGM by producing a copy of the resolution of the board of directors or other governing bodies of such Shareholder appointing such persons to attend the meeting.

2. Proxy

- (a) A Shareholder eligible to attend and vote at the AGM is entitled to appoint, in written form, one or more proxies to attend and vote on his/her/its behalf. A proxy does not need to be a Shareholder of the Company.
- (b) A proxy should be appointed by a written instrument signed by the appointer or his/her/its attorney duly authorized in writing. If the form of proxy is signed by the attorney of the appointer, the power of attorney authorizing that attorney to sign or other authorization document(s) must be notarized.
- (c) To be valid, the power of attorney or other authorization document(s) which have been notarized together with the completed form of proxy must be delivered to the place of business of the Company for Domestic Shareholders and Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for H Shareholders not less than 24 hours before the time designated for holding of the AGM (i.e. before 2:00 p.m. on Thursday, June 17, 2021) or any adjournment thereof.
- (d) A Shareholder or his/her/its proxy may exercise the right to vote by poll.

3. Miscellaneous

- (a) The AGM will not last for more than one working day. Shareholders who attend the AGM shall bear their own travelling and accommodation expenses.
- (b) The address of the Company's share registrar of H Shares, Computershare Hong Kong Investor Services Limited, is at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The contact details of the place of business of the Company are as follows:

No. 1 Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang Province, the PRC
Postal Code: 325000
Telephone No.: (+86) 577 8877 1689
Facsimile No.: (+86) 577 8878 9117
- (d) The contact person for the AGM is Mr. WANG Jian and his telephone number is (+86) 577 8877 1689.

1. RESPONSIBILITY STATEMENT

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

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors, the Supervisors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (as defined in Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept under Section 352 of the SFO; or (iii) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code are as follows:

Name of Directors	Class of Shares	Nature of Interest	Number of Shares	Total Number of Shares	Approximate Percentage in Shares of the Same Class ⁽¹⁾	Approximate Percentage of the Company's Total Issued Share Capital ⁽¹⁾
Mr. GUAN Weili	Domestic Shares	Beneficial owner	18,350,250(L)	22,144,750(L)	40.07%	29.68%
		Interest of spouse	3,794,500(L) ⁽²⁾			
Ms. WANG Lianyue	Domestic Shares	Beneficial owner	3,794,500(L)	22,144,750(L)	40.07%	29.68%
		Interest of spouse	18,350,250(L) ⁽²⁾			
Ms. WANG Hongyue	Domestic Shares	Beneficial owner	3,984,350(L)	5,527,350(L)	10.00%	7.41%
		Interest in a controlled corporation	1,543,000(L) ⁽³⁾			
	H Shares	Beneficial owner	309,000(L)	309,000(L)	1.60%	0.41%

Notes:

(L): Long position

(1) The shareholding percentages are calculated on the basis of 55,260,000 Domestic Shares and 19,340,300 H Shares (an aggregate of 74,600,300 Shares) issued by the Company as at the Latest Practicable Date.

- (2) Mr. GUAN Weili is the spouse of Ms. WANG Lianyue and therefore, Mr. GUAN Weili is deemed to be interested in the Domestic Shares held by Ms. WANG Lianyue, and Ms. WANG Lianyue is deemed to be interested in the Domestic Shares held by Mr. GUAN Weili by virtue of Part XV of the SFO.
- (3) Ms. WANG Hongyue is the general partner of Ningbo Xinshi Kangning Investment Management L.P. (“**Xinshi Kangning**”), which is a limited partnership, and holds approximately 34.57% in Xinshi Kangning. Therefore, by virtue of Part XV of the SFO, Ms. WANG Hongyue is deemed to be interested in all the Domestic Shares held by Xinshi Kangning in the Company.

Save as disclosed above, so far as any Directors, Supervisors or chief executives of the Company are aware, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (as defined in Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register kept under Section 352 of the SFO; or (iii) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

3. COMPETING INTERESTS

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

4. INTERESTS OF DIRECTORS

- (i) As of the Latest Practicable Date, none of the Directors held directorship or were employees of another company which had interests or short positions in the Shares and underlying Shares of the Company which fell to be disclosable in accordance with the provisions of Divisions 2 and 3 of Part XV of the SFO.
- (ii) As of the Latest Practicable Date, none of the Directors held material interests in any contracts or arrangements entered into with the Group that were still in existence and material to the Group.
- (iii) Save as disclosed above, as of the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of or leased to or which were proposed to be acquired or disposed of by or leased to by any member of the Group since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

5. DIRECTORS' AND SUPERVISORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited accounts of the Group were made up.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested, either directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting at the Latest Practicable Date and was significant to the business of the Group.

6. MATERIAL LITIGATIONS

As of the Last Practicable Date, the Company and any member of the Group had not involved in any material litigation or claims. To the knowledge of the Directors, no member of the Group had any pending or threatened material litigation or claims.

7. MATERIAL CONTRACTS

During the two years prior to the date of this circular, none of the Group's members had entered into any material contracts (except those entered into in the Group's daily business).

8. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the Latest Practicable Date, the following persons (not being the Directors, Supervisors or chief executives of the Company) had interests or short positions in the Shares or underlying Shares of the Company which, to the knowledge of any Director, fell to be disclosable in accordance with the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class ⁽¹⁾	Approximate Percentage of the Company's Total Issued Share Capital ⁽¹⁾
Guangzhou GL Capital Investment Fund L.P. ("Defu Fund") (廣州德福股權投資基金合夥企業(有限合夥)) (「德福基金」) ⁽²⁾	Domestic Shares	Beneficial owner	12,051,541(L)	21.80%	16.15%
Guangzhou GL Capital GP L.P. (廣州德福投資諮詢合夥企業(有限合夥)) ⁽³⁾	Domestic Shares	Interest in a controlled corporation	12,051,541(L)	21.80%	16.15%
Mr. HOU Ming ⁽⁴⁾	Domestic Shares	Interest in a controlled corporation	12,051,541(L)	21.80%	16.15%
Guangzhou Automobile Group Capital Co., Ltd. (廣汽資本有限公司) ⁽⁵⁾	Domestic Shares	Interest in a controlled corporation	12,051,541(L)	21.80%	16.15%
Mr. XU Yi ⁽⁶⁾	Domestic Shares	Interest of spouse	5,527,350(L)	10.00%	7.41%
Wind Information Co., Ltd. (萬得信息技術股份有限公司) ⁽⁷⁾	Domestic Shares	Interest in a controlled corporation	3,333,000(L)	6.03%	4.46%
Wind Impact Equity Investment (Jiaxing) Partnership (Limited Partnership) (萬得影響力股權投資(嘉興)合夥企業(有限合夥))	Domestic Shares	Beneficial owner	3,333,000(L)	6.03%	4.46%
Shanghai Hehuayuan Enterprise Management Center (Limited Partnership) (上海荷花緣企業管理中心(有限合夥)) ⁽⁷⁾	Domestic Shares	Interest in a controlled corporation	3,333,000(L)	6.03%	4.46%

APPENDIX I
STATUTORY AND GENERAL INFORMATION

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate	Approximate
				Percentage in Shares of the Same Class ⁽¹⁾	Percentage of the Company's Total Issued Share Capital ⁽¹⁾
Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥))	Domestic Shares	Beneficial owner	3,253,180(L)	5.89%	4.36%
Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥)) ⁽⁸⁾	Domestic Shares	Interest in a controlled corporation	3,253,180(L)	5.89%	4.36%
Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥))	Domestic Shares	Beneficial owner	3,253,179(L)	5.89%	4.36%
Mr. ZHAO Yongsheng ⁽⁹⁾	Domestic Shares	Interest in a controlled corporation	3,253,179(L)	5.89%	4.36%
Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) ⁽¹⁰⁾	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	11.77%	8.72%
Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝納投資有限公司)	Domestic Shares	Beneficial owner	2,780,000(L)	5.03%	3.73%
Jinshi Investment Co., Ltd. (金石投資有限公司) ⁽¹¹⁾	Domestic Shares	Interest in a controlled corporation	2,780,000(L)	5.03%	3.73%
Ms. ZOU Haili	H Shares	Beneficial owner	1,900,000(L)	9.82%	2.54%
Citigroup Inc.	H Shares	Person with security interest in shares	1,345,792(L)	6.96%	1.80%
OrbiMed Advisors LLC	H Shares	Investment manager	1,454,000(L)	7.52%	1.95%
OrbiMed Capital LLC	H Shares	Investment manager	2,150,900(L)	11.12%	2.88%
OrbiMed Partners Master Fund Limited	H Shares	Beneficial owner	1,279,900(L)	6.62%	1.72%
Prime Capital Management Company Limited	H Shares	Investment manager	2,118,088(L)	10.95%	2.84%
OrbiMed Partners II, L.P.	H Shares	Beneficial owner	1,052,000(L)	5.44%	1.41%
UBS Group AG	H Shares	Interest in a controlled corporation	4,035,096(L)	20.86%	5.41%

Notes:

(L): Long position

(P): Lending pool

(S): Short position

- (1) The shareholding percentages are calculated on the basis of 55,260,000 Domestic Shares and 19,340,300 H Shares (an aggregate of 74,600,300 Shares) issued by the Company as of the Latest Practicable Date.
- (2) In April, 2021, Defu Fund entered into an equity transfer agreement with Central Enterprises Poor Regions Industry Investment Fund Co., Ltd. (中央企業貧困地區產業投資基金股份有限公司) (the “**transferee**”), pursuant to which, Defu Fund agreed to transfer 6,666,666 Domestic Shares to the transferee. The equity transfer is subject to the satisfaction of the conditions precedents to the equity transfer agreement. As at the Latest Practicable Date, the equity transfer has not been completed.
- (3) Guangzhou GL Capital GP L.P. is the general partner of Defu Fund, which is a limited partnership. Therefore, by virtue of Part XV of the SFO, Guangzhou GL Capital GP L.P. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.
- (4) According to the disclosure of interest form submitted by Mr. Hou Ming on 23 April 2021, he holds 99% and 95% interest in Guangzhou GL Capital GP L.P. and Beijing Defu Investment Company Limited (北京德福投資有限公司), respectively, and Beijing Defu Investment Company Limited (北京德福投資有限公司) holds 69.3% interest in Guangzhou Defu Investment Management Co., Ltd. (廣州德福投資管理有限公司). Guangzhou Defu Investment Management Company Limited (廣州德福投資管理有限公司) holds 1% interest in Guangzhou GL Capital GP L.P. Mr. Hou Ming also holds 0.7% interest in Guangzhou Defu Investment Management Company Limited (廣州德福投資管理有限公司). Guangzhou GL Capital GP L.P., as a general partner, holds 1.57% interest in Defu Fund. Mr. Hou Ming is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.
- (5) Guangzhou Automobile Group Capital Co., Ltd. is a limited partner of Defu Fund, which holds approximately 52.45% interest in Defu Fund. Therefore, by virtue of Part XV of the SFO, Guangzhou Automobile Group Capital Co., Ltd. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.
- (6) Mr. XU Yi is the spouse of Ms. WANG Hongyue, an executive Director, and therefore, Mr. XU Yi is deemed to be interested in the Domestic Shares held by Ms. WANG Hongyue by virtue of Part XV of the SFO.
- (7) According to the disclosure of interest forms submitted by Wind Information Co., Ltd. and Shanghai Hehuayuan Enterprise Management Center (Limited Partnership) (上海荷花緣企業管理中心(有限合夥)) on 23 April 2021, Wind Information Co., Ltd. holds 99% interest in Shanghai Hehuayuan Enterprise Management Center (Limited Partnership) (上海荷花緣企業管理中心(有限合夥)), and Shanghai Hehuayuan Enterprise Management Center (Limited Partnership) (上海荷花緣企業管理中心(有限合夥)) holds 76.92% interest in Wind Impact Equity Investment (Jiaxing) Partnership (Limited Partnership) (萬得影響力股權投資(嘉興)合夥企業(有限合夥)). Wind Information Co., Ltd. and Shanghai Hehuayuan Enterprise Management Center (Limited Partnership) (上海荷花緣企業管理中心(有限合夥)) are deemed to be interested in all the Domestic Shares held by Wind Impact Equity Investment (Jiaxing) Partnership (Limited Partnership) (萬得影響力股權投資(嘉興)合夥企業(有限合夥)) in the Company.
- (8) Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥)) holds 99.99% equity interest in Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)). Therefore, by virtue of Part XV of the SFO, Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥)) is deemed to be interested in all the Domestic Shares held by Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)) in the Company.
- (9) Mr. ZHAO Yongsheng holds 99.90% equity interest in Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥)). Therefore, by virtue of Part XV of the SFO, Mr. ZHAO Yongsheng is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥)) in the Company.

- (10) Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) is the general partner of Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥)) and Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)). Therefore, by virtue of Part XV of the SFO, Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥)) and Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)) in the Company.
- (11) Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝納投資有限公司) is wholly held by Jinshi Investment Co., Ltd. (金石投資有限公司). Therefore, Jinshi Investment Co., Ltd. (金石投資有限公司) is deemed to be interested in the Domestic Shares held by Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝納投資有限公司) in the Company by virtue of Part XV of the SFO.

Saved as disclosed above, as at the Latest Practicable Date, to the best knowledge of the Directors, there were no other persons who had interests or short positions in the Shares or underlying Shares of the Company, which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

9. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or was proposing to enter into any service contracts with the Company or any of its subsidiaries, excluding contracts expiring or terminable within one year without payment of compensation other than statutory compensation.

10. EXPERTS' DISCLOSURE OF INTEREST AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:

Name	Qualification
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

- (1) As at the Latest Practicable Date, Gram Capital did not have any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (2) As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interests in any assets which have been acquired or disposed of or leased to or which were proposed to be acquired or disposed of by or leased to by any member of the Group since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Company were made up.

- (3) Gram Capital issued a letter dated May 14, 2021 for the purpose of incorporation in this circular in connection with its recommendation to the Independent Board Committee and the independent Shareholders.
- (4) Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of Gram Capital's opinions and reference to its name in the form and context in which they appear.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any working day (public holidays excepted) at the Company's principal place of business in Hong Kong at 40th Floor, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong from the date of this circular up to and including the date of the AGM:

- (1) a copy of the Equity Incentive Scheme;
- (2) a copy of the Proposed Amendment to the Equity Incentive Scheme;
- (3) the letter from the Independent Board Committee to the independent Shareholders as set out on page 27 of this circular;
- (4) the letter from Gram Capital to the Independent Board Committee and the independent Shareholders as set out on pages 28 to 42 of this circular;
- (5) the written consents referred to in paragraph 10 of this appendix; and
- (6) this circular.

12. GENERAL

- (1) As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the Group's financial or trading position since 31 December 2020, being the date on which the latest published audited consolidated accounts of the Company were made up.
- (2) The registered office of the Company is No. 1 Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, PRC and the postal code is 325000.
- (3) The H Share Registrar of the Company is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

- (4) The joint company secretaries of the Company are Mr. WANG Jian and Ms. NG Wing Shan. Ms. NG Wing Shan is an employee of SWCS Corporate Services Group (Hong Kong) Limited, an external service provider.
- (5) If there is any discrepancy between the English text and Chinese text of this circular, the English text shall prevail.