

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



康宁

**We Ka H a C ., L .**  
**溫州康寧醫院股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China)*

*(S c C e: 2120)*

**ANNOUNCEMENT OF THE RESOLUTIONS PASSED  
AT THE MEETING OF THE BOARD**

**PROPOSED A SHARE OFFERING AND RELATED MATTERS**

**PROPOSED AMENDMENTS TO, OR ADOPTION OF,  
THE ARTICLES OF ASSOCIATION AND  
CORPORATE GOVERNANCE RULES FOR THE PURPOSE OF  
THE PROPOSED A SHARE OFFERING**

The Company held the meeting of the Board on August 25, 2016.

The Board hereby announces that, after due consideration, each of the following resolutions was approved at the Meeting:

1. the proposal for the Proposed A Share Offering;
2. the plan for distribution of accumulated profits before the Proposed A Share Offering;
3. the proposal on the use of proceeds from the Proposed A Share Offering and the feasibility analysis;
4. the report on the use of the proceeds from the H Share Offering as of June 30, 2016;

5. the authorization by the Shareholders to the Board to deal with all matters related to the Proposed A Share Offering;
6. the A Share price stabilization plan for the three years following the Proposed A Share Offering;
7. the remedial measures for the dilution of immediate return as a result of the Proposed A Share Offering;
8. the dividend plan for the three years following the Proposed A Share Offering;
9. the undertakings regarding the disclosure of information in the prospectus to be published for the Proposed A Share Offering;
10. the proposed amendments to the Articles of Association (effective upon completion of the Proposed A Share Offering);
11. the proposed amendments to *Rules and Procedures for General Meetings* (effective upon completion of the Proposed A Share Offering);
12. the proposed amendments to *Rules and Procedures for Board Meetings* (effective upon completion of the Proposed A Share Offering);
13. the proposed amendments to *Terms of Reference for the Audit Committee* (effective upon completion of the Proposed A Share Offering);
14. the proposed amendments to *Terms of Reference for the Nomination Committee* (effective upon completion of the Proposed A Share Offering);
15. the proposed amendments to *Terms of Reference for the Remuneration Committee* (effective upon completion of the Proposed A Share Offering);
16. the proposed amendments to *Terms of Reference for the Strategy and Risk Management Committee* (effective upon completion of the Proposed A Share Offering);
17. the proposed amendments to *Rules for the Management of the Related Party Transactions* (effective upon completion of the Proposed A Share Offering);
18. the proposed amendments to *Administrative Measures for External Guarantee* (effective upon completion of the Proposed A Share Offering);
19. the proposed amendments to *Terms of Reference for the Independent Directors* (effective upon completion of the Proposed A Share Offering);

20. the proposed amendments to *Administrative Measures for Information Disclosure* (effective upon completion of the Proposed A Share Offering);
21. the proposed amendments to *Administrative Measures for Inside Information* (effective upon completion of the Proposed A Share Offering);
22. the proposed adoption of *Rules for the Management and the Use of Proceeds from Fund Raising* (effective upon completion of the Proposed A Share Offering);
23. the proposed amendments to *Terms of Reference for the Board Secretary* (effective upon completion of the Proposed A Share Offering);
24. the proposed adoption of *Administrative Measures for Investor Relations* (effective upon completion of the Proposed A Share Offering);
25. the proposed adoption of *Code of Conduct of Controlling Shareholders and Actual Controllers* (effective upon completion of the Proposed A Share Offering);
26. the proposed adoption of *Administrative Measures for Directors, Supervisors and Senior Management Holding Shares in the Company and the Changes Thereof* (effective upon completion of the Proposed A Share Offering); and
27. the proposed approval to convene the EGM and the Class Meetings.

Items 1 to 12, 17, 18, 22 and 25 above shall be submitted to the EGM for Shareholders' consideration. Items 1, 2, 3, 5, 6, 7, 8 and 9 above shall be submitted to the Class Meetings for Shareholders' consideration. A circular (the "Circular") containing details of the Proposed A Share Offering will be dispatched to the Shareholders in due course.

## **I. PROPOSED A SHARE OFFERING**

At the Meeting, the Board resolved to submit to the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting, respectively, for consideration and approval by the Shareholders by way of a special resolution a proposal for the Proposed A Share Offering. The Proposed A Share Offering will be made in accordance with the Company Law of the PRC, the Securities Law of the PRC, the Measures for the Administration of Initial Public Offerings and Listing of Shares (《首次公開發行股票並上市管理辦法》), the Opinions on Further Promoting the IPO System Reform (《關於進一步推進新股發行體制改革的意見》), the Measures for the Administration of Issue of Securities and Underwriting (《證券發行與承銷管理辦法》) and the Measures for Strengthening the Regulation and Supervision on Issue of New Shares (《關於加強新股發行監管的措施》) and other relevant laws and regulations of the PRC. Details of the proposal for the Proposed A Share Offering are set out as follows:

**A. Type of Securities to be Issued**

A Shares

**B. Price**

RMB1.00 per Share

**C. Stock Exchange for the Proposed Listing of the A Shares**

Shanghai Stock Exchange

**D. Offering Size**

Not more than 8,115,500 A Shares and not more than 10% of the Company's entire issued capital upon completion of the Proposed A Share Offering, and the final number will be determined by the Board according to the authorization obtained from the Shareholders, taking into consideration the Company's capital requirements and market demand and after consultation with the sponsor(s) (the lead underwriter(s)). The number of A Shares to be issued will be adjusted accordingly upon the occurrence of ex-rights events, such as stock dividend, transferring of capital reserve into capital, etc.

**E. Target Subscriber**

The target subscribers of the A Shares are inquiring subscribers who satisfy the relevant qualification requirements of the CSRC and other vetting authorities, as well as individuals, legal persons and other institutional investors who have opened A share securities accounts with China Securities Depository and Clearing Corporation Limited (excluding those prohibited by the relevant PRC laws and regulations).

The Company will procure the connected persons of the Company not to subscribe for the A Shares and will ensure that none of the subscribers of the A Shares is a connected person of the Company. If any of the subscribers of the Proposed A Share Offering is a connected person of the Company, the Company will take all reasonable measures to comply with the relevant listing rules of the stock exchanges on which the Shares are listed.

**F. Method of Offering**

An offering to public investors online at a fixed price based on the market capitalization, or other offering methods approved by the CSRC.

## **G. Pricing Methodology**

Taking into full account the conditions of the capital markets and the Company at the time of the Proposed A Share Offering, the issue price of the A Shares will be fixed directly through negotiations between the lead underwriter(s) and the Board according to the authorization by the Shareholders, or by any other legally practicable methods.

Pursuant to the Company Law of the PRC, the issuance price of shares can be par value or higher than the par value, however, not less than the par value. The nominal value of the A Shares is currently expected to be RMB1.00 per A Share, same as that of the H Shares, and thus the Company currently estimates that the issue price of the A Shares shall not be less than RMB1.00 per A Share.

Pursuant to the Measures for the Administration of Issue of Securities and Underwriting, the issuance price of the initial public offering of shares can be fixed through making enquiries with offline investors, or fixed directly through negotiations between the lead underwriter(s) and the issuer, or by any other legally practicable methods. If the number of shares of the initial public offering is below 20 million shares (inclusive) and there is no plan for transfer of existing shares in issue, the issue price shall be confirmed by means of direct pricing. The issuer and the lead underwriter shall disclose the pricing methodology of the issuance of shares in the letter of intent (or prospectus) and the announcement of the issuance. If an initial public offering of the shares is to be conducted by means of inquisitive pricing, then once the offline investors have provided their quotations, the issuer and the lead underwriter(s) shall omit the portion of the highest quotations of the total subscription amount while the omitted portion shall not be less than 10% of the total subscription amount by the offline investors, and that the issuance price shall then be determined by the issuer and the lead underwriter(s) based on the remaining quotations and the remaining subscription amount. The issuer and the lead underwriter(s) can negotiate and determine the conditions of investors entitled to participate in the price consultation, effective quotation conditions, placing principles and placing methods, and select placing targets among the eligible offline investors under the previously confirmed placing principles. If the P/E ratio of the issue price (or the upper limit of the range of the issue price) announced by issuers and lead underwriters under initial public offerings of shares is higher than the average P/E ratio in secondary markets of public companies in the same industry, such issuers and lead underwriters should expressly remind the investors in the special announcement on investment risks of the risk of loss suffered from investors resulted by the potential and relatively high appraised value of such pricing while making disclosure on the issue price.

The Measures for the Administration of Issue of Securities and Underwriting and other regulations did not impose requirements on the upper limit of the issue price.

The factors to be considered by the Board and lead underwriter(s) in setting the issue price are as follows:

- (i) the applicable legal requirements of and guidelines on the pricing mechanism for A share offerings as issued by the CSRC from time to time;
- (ii) the market conditions of the A share offering market, including or as otherwise reflected by the interest in subscription of shares, including purchase price and number of shares to be subscribed, as indicated by investors during the process of investors roadshow and pricing enquiries by the Company and the lead underwriter(s); and
- (iii) the valuation of other listed companies in the same or similar industries.

**H. Method of Underwriting**

The underwriting syndicate led by the lead underwriter(s) will underwrite the offering by way of standby commitment.

**I. Conversion of the Form of the Company**

The Company will apply for conversion into a joint stock company with both domestic and overseas listed Shares.

**J. Valid Period of the Resolution**

The valid period of the resolution is 12 months from the date when this proposal is considered and approved by the Shareholders at the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class meeting.

The resolution above will be voted item by item and is to be approved as a special resolution. It should be noted that the Proposed A Share Offering is subject to the approval from the CSRC and the listing of the A Shares is subject to the approval from the Shanghai Stock Exchange. The Proposed A Share Offering will be made pursuant to the specific mandate to be sought at the EGM, the Domestic Shareholder's Class Meeting and the H Shareholders' Class Meeting. The Company will make further announcements when the detailed terms of the Proposed A Share Offering, such as issue price and issue size, are finalized.

***Impact of the Proposed A Share Offering on the shareholding structure of the Company***

For reference and illustration purposes only, assuming that a total of 8,115,500 A Shares are issued under the Proposed A Share Offering and there are no changes to the capital of the Company prior to the completion of the Proposed A Share Offering, the shareholding structure of the Company immediately before and after the completion of the Proposed A Share Offering is set out as follows:

|                                                                  | Immediately before the completion of the Proposed A Share Offering |                                                              | Immediately after the completion of the Proposed A Share Offering |                                                              |
|------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------|--------------------------------------------------------------|
|                                                                  | Number of Shares                                                   | Approximate percentage of the Company's issued share capital | Number of Shares                                                  | Approximate percentage of the Company's issued share capital |
| <b>Domestic Shares</b>                                           |                                                                    |                                                              |                                                                   |                                                              |
| – Domestic Shares in issue                                       | 52,800,000                                                         | 72.29%                                                       | 52,800,000                                                        | 65.06%                                                       |
| GUAN Weili <sup>(1)</sup>                                        | 19,810,250                                                         | 27.12%                                                       | 19,810,250                                                        | 24.41%                                                       |
| WANG Lianyue <sup>(1)</sup>                                      | 3,794,500                                                          | 5.20%                                                        | 3,794,500                                                         | 4.68%                                                        |
| WANG Hongyue <sup>(1)</sup>                                      | 5,304,350                                                          | 7.26%                                                        | 5,304,350                                                         | 6.54%                                                        |
| Guangzhou GL Capital Investment Fund L.P. (廣州德福股權投資基金合夥企業(有限合夥)) | 15,384,541                                                         | 21.06%                                                       | 15,384,541                                                        | 18.96%                                                       |
| Other Domestic Shareholders <sup>(2)</sup>                       | 8,506,359                                                          | 11.64%                                                       | 8,506,359                                                         | 10.48%                                                       |
| – A Shares to be issued under the Proposed A Share Offering      | —                                                                  | —                                                            | 8,115,500                                                         | 10.00%                                                       |
| <b>HSR Shares</b>                                                | 20,240,000                                                         | 27.71%                                                       | 20,240,000                                                        | 24.94%                                                       |
| <b>Total</b>                                                     | <u>73,040,000</u>                                                  | <u>100%</u>                                                  | <u>81,155,500</u>                                                 | <u>100%</u>                                                  |

Notes:

(1) Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue are Directors.

- (2) As of the date of this announcement, Ningbo Enci Kangning Investment Management L.P. (寧波恩慈康寧投資管理合夥企業(有限合夥)) (“**Enci Kangning**”) and Ningbo Xinshi Kangning Investment Management L.P. (寧波信實康寧投資管理合夥企業(有限合夥)) (“**Xinshi Kangning**”), both limited partnerships, held 258,000 and 1,543,000 Domestic Shares, representing approximately 0.35% and 2.11% of the Company’s issued share capital. Mr. XIE Tiefan, a Supervisor, is one of the limited partners of Enci Kangning. Ms. WANG Hongyue is the general partner of Xinshi Kangning and Mr. SUN Fangjun, a Supervisor, is one of the limited partners of Xinshi Kangning.

As a result of the Proposed A Share Offering and assuming a maximum of 8,115,500 A Shares are issued, the Company’s public float (including H Shares and A Shares) will be approximately 34.94%. The Company would still be able to meet the minimum requirement on public float percentage as imposed by the Hong Kong Stock Exchange at the time of the Company’s listing of H Shares. The percentage of H Shares held in public hands will be approximately 24.94% while the number of H Shares held by the public remains the same. The Company will closely monitor its public float percentage to make sure its compliance, at all time, with relevant requirements on public float as stipulated under the Listing Rules.

## **II. PLAN FOR DISTRIBUTION OF ACCUMULATED PROFITS BEFORE THE PROPOSED A SHARE OFFERING**

The Board resolved that, subject to any dividend distribution plan that may be declared by the Board and approved by the Shareholders before the completion of the Proposed A Share Offering, the accumulated profits of the Company before the Proposed A Share Offering may be shared by the existing and new Shareholders following the Proposed A Share Offering in proportion to their respective shareholdings.

The Board also resolved to submit the above resolution to the EGM, the Domestic Shareholders’ Class Meeting and the H Shareholders’ Class Meeting, respectively, for consideration and approval of the Shareholders by way of a special resolution. This resolution will become effective upon completion of the Proposed A Share Offering.

### III. PROPOSAL ON THE USE OF PROCEEDS FROM THE PROPOSED A SHARE OFFERING AND THE FEASIBILITY ANALYSIS

It is estimated that the proceeds raised from the Proposed A Share Offering, after deducting relevant offering expenses, will be deposited into a special account designated by the Board, and prioritized to be used in developing the following investment projects:

| Project                                                                           | Proceeds from the Proposed A Share Offering to be Invested (RMB'000) | Percentage of the Proceeds from the Proposed A Share Offering to be Invested |
|-----------------------------------------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------------------------------------|
| 1. Relocation and Expansion of Cangnan Kangning Hospital (蒼南康寧醫院)                 | 132,735.9                                                            | 68.75%                                                                       |
| 2. Establishment of Pingyang Kangning Hospital (平陽康寧醫院)                           | 39,436.5                                                             | 20.43%                                                                       |
| 3. Establishment of the Training and Research Center of Wenzhou Kangning Hospital | 20,895.0                                                             | 10.82%                                                                       |
| <b>Total</b>                                                                      | <b>193,067.3</b>                                                     | <b>100%</b>                                                                  |

Pursuant to the requirements under the Measures for the Administration of Initial Public Offerings and Listing of Shares issued by the CSRC, the estimated amount of proceeds to be raised from the public offering shall be determined when the first application for the public offering of shares is submitted and the Company shall determine the amount of proceeds intended to be raised based on the actual situation of the projects intended to be invested in. As such, in accordance with the applicable laws, the Company estimated the amount of proceeds for purposes of inclusion in this announcement based on its estimates of the A Shares' valuation, the proposed number of A Shares to be issued, as well as the amount of funds that are expected to be applied to the uses as disclosed below.

Considering the factors including the estimated numbers of psychiatric patients in Pingyang and Cangnan as well as the number of beds and medical staff planned to be added, the Company estimates the amount of proceeds to be used based on the land and site acquisition and renovation costs, construction expenditure and equipment purchase expenditure for the relocation and expansion of Cangnan Kangning Hospital and the establishment of Pingyang Kangning Hospital. Based on the Company's plan on further enhancing training and research, the Company estimates the amount to be used in the construction of, and the equipment purchase expenditure on, the Training and Research Center of Wenzhou Kangning Hospital. The details of allocation are as follows:

RMB'000

|                                                     | Relocation and<br>Expansion of Cangnan<br>Kangning Hospital |                | Establishment of<br>Pingyang Kangning<br>Hospital |                | Training and Research<br>Center of Wenzhou<br>Kangning Hospital |                | Total            |                |
|-----------------------------------------------------|-------------------------------------------------------------|----------------|---------------------------------------------------|----------------|-----------------------------------------------------------------|----------------|------------------|----------------|
|                                                     | Amount                                                      | Proportion     | Amount                                            | Proportion     | Amount                                                          | Proportion     | Amount           | Proportion     |
| Land and site acquisition<br>and renovation costs   | 42,300.0                                                    | 31.87%         | 29,682.7                                          | 42.94%         | -                                                               | -              | 71,982.7         | 32.32%         |
| Construction expenditure                            | 63,979.0                                                    | 48.20%         | 22,713.7                                          | 32.86%         | 9,000.0                                                         | 43.07%         | 95,692.7         | 42.96%         |
| Equipment purchase<br>expenditure                   | 13,787.0                                                    | 10.39%         | 11,707.2                                          | 16.94%         | 10,900.0                                                        | 52.17%         | 36,394.2         | 16.34%         |
| Others                                              | 12,669.9                                                    | 9.55%          | 5,015.5                                           | 7.26%          | 995.0                                                           | 4.76%          | 18,680.4         | 8.39%          |
| <b>Total</b>                                        | <b>132,735.9</b>                                            | <b>100.00%</b> | <b>69,119.2</b>                                   | <b>100.00%</b> | <b>20,895.0</b>                                                 | <b>100.00%</b> | <b>222,750.1</b> | <b>100.00%</b> |
| In which: amount of proceeds<br>intended to be used | 132,735.9                                                   | 100.00%        | 39,436.5                                          | 57.06%         | 20,895.0                                                        | 100.00%        | 193,067.3        | 86.67%         |

In the event that the actual proceeds from the offering is lower than the estimated amount to be applied in the relevant investment projects, the difference will be funded by alternative financial resources, such as the Company's internally generated funds and funds from bank and other borrowings incurred as part of its day-to-day operations.

If initial investment is needed before the completion of the Proposed A Share Offering, the Company will pay for such initial investment first, and subsequently replace such prior investment with the funds raised from the Proposed A Share Offering.

This proposal has been approved by the Board. The Board resolved to submit the above resolution to the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting, respectively, for Shareholders' consideration and approval by way of a special resolution. Please refer to the Circular for the summary of the Feasibility Analysis Report on the Use of Proceeds from the Proposed A Share Offering. This resolution will become effective upon completion of the Proposed A Share Offering.

#### **IV. REPORT ON THE USE OF THE PROCEEDS FROM THE H SHARE OFFERING AS OF JUNE 30, 2016**

Pursuant to the Provisions on the Report on Use of Proceeds Previously Raised (《關於前次募集資金使用情況報告的規定》) issued by the CSRC, the Company has conducted an inspection on the use of the proceeds from the H Share Offering as of June 30, 2016. Based on the result of the inspection, the usage of the proceeds from the H Share Offering by the Company is in line with that disclosed in the prospectus of the Company dated November 10, 2015 and the Company has prepared a report on such inspection.

This report has been approved by the Board and is submitted to the EGM for Shareholders' consideration and approval by way of an ordinary resolution.

From the date of the listing of the H Shares and up to the date of this announcement, the Company did not, and does not intend to, change the proposed usage of the proceeds from the H Share Offering as disclosed in the Company's prospectus dated November 10, 2015.

#### **V. AUTHORIZATION BY THE SHAREHOLDERS TO THE BOARD TO DEAL WITH ALL MATTERS RELATED TO THE PROPOSED A SHARE OFFERING**

The Board resolved to submit to the Shareholders to authorize the Board to handle all matters related to the Proposed A Share Offering, including but not limited to:

- (a) to formulate and implement the specific plan for the Proposed A Share Offering in accordance with the particular circumstances, including but not limited to, determining the specific offering date, target subscribers, the number of shares to be offered, pricing methods, offering methods, listing place and other matters related to the offering and listing;
- (b) to handle the application matters related to the offering and listing, including but not limited to, applying for vetting, registration, filing and approval by relevant government agencies, regulatory authorities, stock exchanges and securities registration and settlement institutions;

- (c) to prepare, sign, execute, modify, supplement and deliver any agreements, contracts or the necessary documents, including but not limited to preliminary prospectus, prospectus, sponsor's agreement, underwriting agreement, various announcements and shareholder notifications, various explanation letters or letter of undertaking which are required by regulatory authorities and related to the offering and listing;
- (d) to adjust the plan for the investment projects and the use of proceeds, in accordance with the comments from relevant regulatory authorities during the application and approval of the offering and listing, including but not limited to the investment progress, the adjustment of investment ratio, and the signing of material agreements or contracts during the construction progress of the investment projects;
- (e) to decide and appoint relevant intermediaries, and sign relevant agreements or contracts, such as sponsor's agreement, underwriting agreement, etc.;
- (f) to determine the special deposit account for the proceeds before the offering according to the requirement;
- (g) to revise the relevant provisions of the Articles of Association related to the offering in accordance with the particular circumstances, and to handle the registration of the relevant changes with the administration of industry and commerce;
- (h) to handle matters related to the listing of the issued Shares on the stock exchange upon completion of the offering, including but not limited to the registration according to the commitments of Shareholders, and the information disclosure in accordance with the relevant laws, regulations and applicable listing rules of the stock exchange;
- (i) if the securities regulatory authorities issue new policies on the initial public offering and listing of A shares, the Board is authorized to adjust the offering plan for the Proposed A Share Offering in accordance with the new policies;
- (j) to handle other matters which the Board considers as necessary, proper or appropriate for the offering, including to authorize a certain Director to, or the Director in turn to authorize specific staff to, handle specific matters; and
- (k) other necessary matters related to the offering not mentioned above.

The valid period of the above authorization is 12 months from the date when this proposal is considered and approved by the Shareholders at the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting, respectively, by way of a special resolution.

## **VI. A SHARE PRICE STABILIZATION PLAN FOR THE THREE YEARS FOLLOWING THE PROPOSED A SHARE OFFERING**

In order to protect the rights and interests of investors, the Company, in accordance with relevant laws and regulations of the PRC, prepared the plan on the stabilization of the Company's A Share price for the three years following the Proposed A Share Offering.

Under this plan, the Company undertakes that if, within three years following the Proposed A Share Offering, the daily closing prices of the A Shares for 20 consecutive trading days are lower than its latest audited net asset value per Share (if, after the date of the audit for the latest period, the net assets or the total number of Shares of the Company have changed due to profits distribution, conversion of capital reserve into share capital, additional offering, and placing of Shares, etc., the net asset value per Share shall be adjusted accordingly), the Company, the controlling shareholders of the Company, the Directors (other than the independent Directors and Directors not entitled to receive remunerations from the Company) and Company's senior management will take stabilization actions for the A Share price, subject to the compliance with relevant laws and regulations and other provisions required by regulatory documents (including the listing rules of the stock exchanges where the Shares are listed), which may include the repurchase of A Shares by the Company and the increase the shareholding of A Shares by the controlling shareholders of the Company, the Directors and the Company's senior management.

This proposal has been approved by the Board and is submitted to the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting, respectively, for Shareholders' consideration and approval by way of an ordinary resolution. Please refer to the Circular for the full text of the *A Share Price Stabilization Plan for the Three Years Following the Proposed A Share Offering*. The *A Share Price Stabilization Plan for the Three Years Following the Proposed A Share Offering* will become effective upon completion of the Proposed A Share Offering.

## **VII. REMEDIAL MEASURES FOR THE DILUTION OF IMMEDIATE RETURN AS A RESULT OF THE PROPOSED A SHARE OFFERING**

In accordance with relevant laws and regulations of the PRC, an issuer should provide an analysis on the impact on immediate return as a result from an initial public offering, and formulate a recovery plan. Accordingly, the Company has analyzed the impacts of the Proposed A Share Offering on the dilution of immediate return and formulated the relevant principle-based measures on the recovery of return as follows:

After obtaining the proceeds from the Proposed A Share Offering, the Company will timely and effectively implement the investment projects and generate profits, through efficient allocation of capital, so that the future profitability of the Company will be further improved. However, the construction of the investment projects require a certain period of time, the returns of Shareholders during such period will mainly be realized through operating those projects in operation and the completed portion of the investment projects. While the capital and net assets of the Company have been increasing, the diluted current earnings per Share and return on equity may face the risk of decline.

In light of the possible decline of immediate return of existing Shareholders following the Proposed A Share Offering, the Company will take following principle-based measures:

- (a) ensure the progress of the investment projects so as to realize the project profits as soon as possible;
- (b) strictly follow the *Rules for the Management and the Use of Proceeds from Fund Raising*; and
- (c) retain stable policy on Shareholders' return.

This proposal has been approved by the Board, and is submitted to the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting, respectively, for Shareholders' consideration and approval by way of an ordinary resolution. The remedial measures for the dilution of immediate return as a result of the Proposed A Share Offering will become effective upon completion of the Proposed A Share Offering.

## **VIII. DIVIDEND PLAN FOR THE THREE YEARS FOLLOWING THE PROPOSED A SHARE OFFERING**

In order to improve the dividend policies and communication mechanism, the Company has prepared the *Dividend Plan for the Three Years Following the Proposed A Share Offering*, according to the requirements of relevant laws and regulations of the PRC as well as the development strategies of the Company.

This proposal has been approved by the Board, and is submitted to the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting, respectively, for Shareholders' consideration and approval by way of an ordinary resolution. Please refer to the Circular for the full text of the *Dividend Plan for the Three Years Following the Proposed A Share Offering*. The *Dividend Plan for the Three Years Following the Proposed A Share Offering* will become effective upon completion of the Proposed A Share Offering.

## **IX. UNDERTAKINGS REGARDING THE DISCLOSURE OF INFORMATION IN THE PROSPECTUS TO BE PUBLISHED FOR THE PROPOSED A SHARE OFFERING**

In accordance with relevant laws and regulations of the PRC, the Company and its controlling shareholders and other relevant parties will make the following undertakings in the prospectus to be published for the Proposed A Share Offering:

The Company and its controlling shareholders undertake that if the prospectus of the Proposed A Share Offering contains false content, misleading statements or material omissions, which is material and substantive for the determination of whether the Company meets the statutory qualification for an offering, the Company will prepare a repurchase plan and submit it to the general meeting for approval, and repurchase all A Shares offered in the Proposed A Share Offering in accordance with the relevant laws and regulations of the PRC.

The Company, its controlling shareholders, actual controllers, Directors, supervisors and senior management members undertake that if the prospectus of the Proposed A Share Offering contains false content, misleading statements or material omissions, which lead to losses of the investors when dealing in the A Shares, such loss will be compensated by them in accordance with the applicable laws and regulations of the PRC.

This proposal has been approved by the Board, and is submitted to the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting, respectively, for Shareholders' consideration and approval by way of an ordinary resolution.

## **X. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

In accordance with relevant laws and regulations of the PRC, the Board proposed to amend the Articles of Association to be effective upon completion of the Proposed A Share Offering.

The major amendments to the Articles of Association include (i) provisions related to the additional number of Shares to be issued; and (ii) add provisions mandatory for A Share listed issuers. As of the date of this announcement, the information related to the number of A Shares to be finally issued is still outstanding. The Company will fill in relevant information once such information is finalized.

This proposal has been approved by the Board, and is submitted to the EGM for Shareholders' consideration and approval by way of a special resolution. Please refer to the Circular for the details of the proposed amendments to the Articles of Association.

The Articles of Association are prepared in Chinese without an official English version. Any English translation is for reference only. In case of any inconsistency, the Chinese version shall prevail.

## **XI. PROPOSED AMENDMENTS TO, OR ADOPTION OF, THE RELEVANT CORPORATE GOVERNANCE RULES**

In order to meet the relevant regulatory requirements in connection with the Proposed A Share Offering, the Board proposed to amend the following corporate governance rules: *Rules and Procedures for General Meetings, Rules and Procedures for Board Meetings, Terms of Reference for the Audit Committee, Terms of Reference for the Nomination Committee, Terms of Reference for the Remuneration Committee, Terms of Reference for the Strategy and Risk Management Committee, Rules for the Management of Related Party Transactions, Administrative Measures for External Guarantee, Terms of Reference for the Independent Directors, Administrative Measures for Information Disclosure, Administrative Measures for Inside Information and Terms of Reference for the Board Secretary*. The Board also proposed to adopt *Rules for the Management and the Use of Proceeds from Fund Raising, Administrative Measures for Investor Relations, Code of Conduct of Controlling Shareholders and Actual Controllers and Administrative Measures for Directors, Supervisors and Senior Management Holding Shares in the Company and the Changes Thereof*.

The proposals have been approved by the Board among which, the proposals to amend *Rules and Procedures for General Meetings* and *Rules and Procedures for Board Meetings* are submitted to the EGM for Shareholders' consideration and approval by way of special resolutions, while the proposals to amend *Rules for the Management of Related Party Transactions* and *Administrative Measures for External Guarantee*, and the proposals to adopt *Rules for the Management and the Use of Proceeds from Fund Raising* and *Code of Conduct of Controlling Shareholders and Actual Controllers* are submitted to the EGM for Shareholders' consideration and approval by way of ordinary resolutions. The above-mentioned rules, if amended or adopted, will become effective upon completion of the Proposed A Share Offering.

Each of the above-mentioned internal corporate governance rules are prepared in Chinese without an official English version. Any English translation is for reference only. In case of any inconsistency, the Chinese version shall prevail.

Please refer to the Circular for the details of the proposed amendments to, or the adoption of, the above-mentioned corporate governance rules. The above-mentioned rules and procedures are formulated in accordance with relevant laws, regulations or listing rules of the PRC, some provisions of which may be different from the requirements of the Listing Rules. In the event that the requirements of the Listing Rules and the above-mentioned rules are different, the Company will comply with all relevant listing rules of the stock exchanges on which the Shares are listed, whichever is stricter or imposes more obligations on the Company.

## **XII. BENEFITS AND REASONS FOR THE PROPOSED A SHARE OFFERING**

The reasons for and the benefits of the Proposed A Share Offering are as follows:

- (i) as the largest private psychiatric healthcare group in the PRC, the healthcare facilities owned and managed by the Company, and the Company's customers and business partners are all located in mainland China. Through a domestic issuance of A Shares and listing and the realization of the listing statuses in both the PRC and Hong Kong markets, the reputation and influence of the Company would be further enhanced. Meanwhile, expanded coverage and continuous reports of the Company as a dual-listed company from the domestic investment community and social media will further enhance the Company's brand image and strength as well as its reputation and influence;
- (ii) the funds to be raised by the Proposed A Share Offering will provide financial resources for the Company to further pursue its strategic goals, enhance its ability to provide best services to its customers and patients, and strengthen its market-leading position, as it continues to apply the proceeds from the Proposed A Share Offering as stated above; and

- The Directors are of the view the Proposed A Share Offering is in the interests of the Company and the Shareholders as a whole.

### XIII. FUND-RAISING ACTIVITIES

[illegible]

#### XIV. DEFINITIONS

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

|                                        |                                                                                                                                                                                                                                                                   |
|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “A Share(s)”                           | ordinary shares of the Company with nominal value of RMB1.00 per Share that are proposed to be issued under the Proposed A Share Offering, which will be listed on the Shanghai Stock Exchange and traded in RMB                                                  |
| “Articles of Association”              | the articles of association of the Company as amended, supplemented or otherwise modified from time to time                                                                                                                                                       |
| “Board”                                | the board of Directors                                                                                                                                                                                                                                            |
| “Class Meetings”                       | the Domestic Shareholders’ Class Meeting and the H Shareholders’ Class Meeting                                                                                                                                                                                    |
| “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)                                         |
| “CSRC”                                 | China Securities Regulatory Commission                                                                                                                                                                                                                            |
| “Director(s)”                          | the director(s) of the Company                                                                                                                                                                                                                                    |
| “Domestic Share(s)”                    | ordinary Share(s) in 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)                                                                                                                                                                                                                                |
| “Domestic Shareholders’ Class Meeting” | the class meeting of Domestic Shareholders or any adjourned meeting to be held immediately after the conclusion of the EGM or any adjournment thereof (whichever is the later) and for the purpose of approving the Proposed A Share Offering and related matters |

|                                 |                                                                                                                                                                                                                                                                                     |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “EGM”                           | the extraordinary general meeting to be held for the purpose of approving the Proposed A Share Offering and related matters                                                                                                                                                         |
| “H Share(s)”                    | overseas listed foreign Share(s) in the ordinary 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 and traded in Hong Kong dollars                                                             |
| “H Share Offering”              | the initial public offering globally and the listing of the H Shares on the Hong Kong Stock Exchange on November 20, 2015                                                                                                                                                           |
| “H Shareholder(s)”              | the holder(s) of H Share(s)                                                                                                                                                                                                                                                         |
| “H Shareholders’ Class Meeting” | the class meeting of H Shareholders or any adjourned meeting to be held immediately after the conclusion of the Domestic Shareholders’ Class Meeting or any adjournment thereof (whichever is the later) for purpose of approving the Proposed A Share Offering and related matters |
| “Hong Kong”                     | the Hong Kong Special Administrative Region of the PRC                                                                                                                                                                                                                              |
| “Hong Kong Stock Exchange”      | The Stock Exchange of Hong Kong Limited                                                                                                                                                                                                                                             |
| “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                                                                                                                          |
| “Meeting”                       | the meeting of the Board held on August 25, 2016                                                                                                                                                                                                                                    |
| “PRC” or “China”                | the People’s Republic of China, excluding, for the purposes of this announcement only, Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan                                                                                                  |
| “Proposed A Share Offering”     | the Company’s proposed initial public offering of not more than 8,115,500 A Shares in the PRC                                                                                                                                                                                       |

|                  |                                          |
|------------------|------------------------------------------|
| “RMB”            | Renminbi, the lawful currency of the PRC |
| “Share(s)”       | the share(s) of the Company              |
| “Shareholder(s)” | the shareholder(s) of the Company        |

*Certain amounts or percentage figures included in this announcement 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.*

By order of the Board  
 浙江卡吉吉吉吉吉有限公司  
 GUAN Wei i  
 Chairman

Zhejiang, the PRC  
 August 26, 2016

*As of the date of this announcement, the executive Directors are Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue; the non-executive Directors are Mr. YANG Yang and Ms. HE Xin; and the independent non-executive Directors are Mr. CHONG Yat Keung, Mr. HUANG Zhi and Mr. GOT Chong Key Clevin.*