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SALE AND LEASEBACK CONTRACT

The Board is pleased to announce that, in order to revitalize the inventory assets, improve the value of assets in use and enhance the liquidity of the assets, on December 19, 2023 (after trading hours), each of the Company, Pingyang Yining Hospital, Wenzhou Yining Hospital and Qingtian Kangning Hospital entered into the Sale and Leaseback Contract with Sinopharm Leasing, pursuant to which the Company, Pingyang Yining Hospital, Wenzhou Yining Hospital and Qingtian Kangning Hospital shall sell their Leased Assets to Sinopharm Leasing, and Sinopharm Leasing shall lease the Leased Assets back to the Company, Pingyang Yining Hospital, Wenzhou Yining Hospital and Qingtian Kangning Hospital for use. The Company, Pingyang Yining Hospital, Wenzhou Yining Hospital and Qingtian Kangning Hospital shall lease the Leased Assets for use from and pay rental fees to Sinopharm Leasing.

The principal terms of the Sale and Leaseback Contract are summarized as follows:

Date

December 19, 2023 (after trading hours)

Parties

Lessees: The Company, Pingyang Yining Hospital, Wenzhou Yining Hospital and Qingtian Kangning Hospital

Lessor: Sinopharm Leasing

Leased Assets

According to the Sale and Leaseback Contract, the Leased Assets are certain equipment of the Company, Pingyang Yining Hospital, Wenzhou Yining Hospital and Qingtian Kangning Hospital. The original book value of the Leased Assets is approximately RMB62.00 million.

Selling the Leased Assets to the Lessor

Pursuant to the Sale and Leaseback Contract, the Lessees have agreed to sell and the Lessor has agreed to purchase the Leased Assets for a consideration of RMB55.00 million, the amount of which was determined by the Lessees and the Lessor after arm's length negotiations and with reference to, amongst others, the original book value of the Leased Assets of approximately RMB62.00 million and the net appraised value of approximately RMB55.99 million as set out in the valuation report.

The valuation of the Leased Assets was carried out by Guoyi (Beijing) Assets Appraisal Co., Ltd.(國一(北京)資產評估有限公司) (the “**Valuer**”) based on the cost approach. The Valuer is a third party independent of the Company and its connected persons (as defined in the Listing Rules). The two asset valuers responsible for preparing the valuation report both hold asset valuer professional qualification certificates issued by the China Asset Appraisal Association. According to the valuation report, the total appraised value of the Leased Assets as at December 13, 2023 (the “**Valuation Benchmark Date**”) was approximately RMB55.99 million. Details of the valuation report are set out below.

Valuation Methods

The Valuer believes that the income approach is not appropriate since the Leased Assets are single assets and do not have the ability to make separate profits, and the market approach is also not appropriate since there are few market transaction cases. As a result of the foregoing, the valuation of the Leased Assets is carried out using the cost approach under the premise of going concern and open market.

The formula for the cost approach: appraised value = full replacement price $\times$ newness rate.

Purchase price of equipment still in circulation on the market is determined directly by its prevailing market price; for equipment that is obsolete, with discontinued production or not in circulation in the market, the purchase price of the equipment to be appraised is analyzed and determined after taking comprehensive consideration of the differences in performance, technical parameters and useful functions relative to similar equipment. After determining the purchase price of equipment, the relevant transportation and miscellaneous cost, installation and testing cost, equipment foundation cost, other necessary and reasonable costs and capital cost are considered according to the specific conditions of the equipment to determine the replacement value of the equipment. The calculation formula is as follows:

Replacement value = purchase price of equipment + transportation and miscellaneous cost + equipment foundation cost + installation cost + other costs + capital cost.

Purchase price: the purchase price of equipment is determined at the prevailing market price; some of the equipment is purchased recently and is determined based on the purchase invoice amount.

Transportation and miscellaneous cost: for equipment produced locally, the transportation and miscellaneous cost rate is 0.5%; for equipment produced in other provinces, the transportation and miscellaneous cost of the equipment is charged 2~6% according to the transportation distance, volume and weight. Oversized and overweight equipment shall be subject to the upper limit or a rate slightly higher than the above rates. The transportation cost will not be charged again if it is included in the purchase price of equipment.

Installation and testing cost: analyze the installation process and comprehensively consider the installation cost rate according to the technical content of the equipment and the type of equipment. Due to the characteristics of the appraised assets, installation and testing cost is not considered.

Equipment foundation cost: it is not considered in the valuation report.

Determination of newness rate: the theoretical newness rate N1 and the on-site surveyed newness rate N2 are calculated separately, and the newness rate N is determined by adopting the weighted average method. The formula is: newness rate N = theoretical newness rate N1 $\times$ 0.4 + on-site surveyed newness rate N2 $\times$ 0.6.

Theoretical newness rate: consult the relevant information to determine the serviced life, the life, th

Targets and scope of assessment

The assessment targets in the valuation report are the Leased Assets that shall be declared by the Lessees. The Leased Assets are stored at the Company, Pingyang Yining Hospital, Wenzhou Yining Hospital and Qingtian Kangning Hospital, respectively. After on-site inspection, the Valuer believes that all valuation targets attributable to the Lessees are genuine and in normal use. The targets and scope of valuation are consistent with the Leased Assets under the Sale and Leaseback Contract.

Assessment assumptions

(I) General assumptions

1. Transaction assumptions

The transaction assumption assumes that all assets to be valued are in the course of transaction and the valuation conducted by the Valuer is based on simulated market including terms of transaction of such assets. The transaction assumption is one of the most fundamental assumptions for conducting asset valuation.

2. Open market assumption

The open market assumption assumes that the parties to the assets transaction or the proposed assets transaction in the market have equal bargaining power and have the opportunities and time to obtain sufficient market information in order to make a rational judgment on the assets, including their functions, uses and transaction prices. The basis of open market assumption is that the assets can be traded openly in the market.

3. Asset going-concern assumption

The asset going-concern assumption means that the valuation method, parameters and basis shall be determined on the premise that the valued assets will be continuously used in consistence with their current functions and methods, scale, frequency and environment of application, or used on the basis of certain changes thereof.

(II) Special assumptions

1. Regarding the legal description or legal issues of the appraised Leased Assets in the valuation report (including their ownership or encumbrance limitations), the Valuer shall conduct general investigations in accordance with the standards. Apart from those disclosed in the work report, the ownership of the appraised assets is assumed to be in good condition and tradable in the market, not subject to any lien and easement, have not been violated and bearing no other encumbrances;

2. Regarding information employed as basis for all or part of the valuation's conclusions in the valuation report and provided by the Lessees and other parties, the Valuer holds the view that sources of all such information are reliable and appropriate based on prudent analysis;
3. As verified, all licenses, usage permits, letters of consent or other legal or administrative authorization documents that were signed and issued by relevant local and national government institutions and groups as required by the way in which the assets were used that were employed as basis of value estimation in the valuation report, are legally valid within the period of validity as at the Valuation Benchmark Date. The said licenses and files are assumed to be eligible for updates and renewals at any time when their validity terms expire (such as business license, certification of high-technology enterprise, etc.);
4. Apart from those disclosed in the valuation report, the Lessees are assumed to have completely complied with any relevant local and national laws and regulations;
5. The Lessees are assumed to have responsibly fulfilled their duties as asset owners and have competently conducted effective administration over relevant assets;
6. The valuation conducted by the Valuer is based on purchasing power of local currency as at December 13, 2023;
7. There is no significant change in the relevant existing laws, regulations and policies and there is no deterioration in the macro-economic situation of the state;
8. There is no significant change in the political, economic and social environment in the regions where the parties to the Sale and Leaseback Contract are located;
9. There is no material adverse impact caused by other unpredictable and force majeure factors.

The selling consideration will be paid in a lump sum by the Lessor to the bank account designated by Lessees within 15 working days after reaching the relevant agreed conditions and the execution of the Sale and Leaseback Contract.

Financial impact and use of proceeds

Upon completion of the proposed transactions under the Sale and Leaseback Contract, it is expected that: (i) there will be an increase in the total assets of the Company as a reflection to the cash proceeds from the sale of the Leased Assets, which will not have a financial impact on the fixed assets of the Company; and (ii) there will be an increase in the total liabilities of the Company as a reflection to the Group's lease liabilities under the sale and leaseback arrangement. Lease payments and other related expenses will be charged to the income statement of the Company during the Lease Term. Therefore, there will not be any significant impacts on the assets and liabilities of the Company.

The net proceeds received from the transactions under the Sale and Leaseback Contract will be used to supplement the liquidity of the Company and repay part of the Company's short-term debts that are due soon.

Leasing back the Leased Assets to the Lessees

According to the Sale and Leaseback Contract, after selling the Leased Assets to the Lessor, the Leased Assets shall be leased back to the Lessees during the Lease Term for a total fee of RMB66.2607 million. The Lease Term of the Sale and Leaseback Contract is a total of 60 months, starting from the lease commencement date. The lease commencement date is the date on which the selling price of the Leased Assets is paid by the Lessor to the Lessees in full.

Rental fees and the payment method

The rental fees under the Sale and Leaseback Contract totaled RMB66.2607 million, include (i) principal amount of rental of RMB55.00 million, which equalled to the consideration for selling the Leased Assets; and (ii) rental interest of RMB11.2607 million. The rental fees shall be divided into equal installments during the Lease Term, repayable on a monthly basis, at the end of the period. The Lessees shall maintain insurance for the Leased Assets pursuant to the Sale and Leaseback Contract and bear the insurance costs incurred therefrom. The aforesaid fees were arrived at after arm's length negotiations between the Lessees and the Lessor with reference to the prevailing market interest rate (including the prevailing loan market quotation rate and the financing cost of similar sale and leaseback arrangements in the market) and shall be financed by the Company with its internal resources.

Ownership of Leased Assets

Ownership of the Leased Assets shall be transferred to the Lessor from the date on which the selling consideration of the Leased Assets is paid by the Lessor to the Lessees.

If there is no breach of contract by the Lessees or the breach is remedied during the Lease Term, the Lessees are entitled to choose to retain or return the Leased Assets upon the expiration of the Lease Term. If the Lessees choose to retain the Leased Assets upon the expiration of the Lease Term, the Lessor shall, after the Lessees have fulfilled their obligations to pay all rent, penalties for late payment, retention purchase price (the retention purchase price of the four entities, namely, the Company, Pingyang Yining Hospital, Wenzhou Yining Hospital and Qingtian Kangning Hospital under the Sale and Leaseback Contract is RMB400 in total) and other payables under the Sale and Leaseback Contract, transfer the ownership of the Leased Assets and issue an ownership transfer certificate of the Leased Assets to the Lessees in accordance with the then physical and functional status of the Leased Assets. If the Lessees choose to return the Leased Assets upon the expiration of the Lease Term, the Lessees shall return the Leased Assets to the place designated by the Lessor within 10 days upon the expiration of the Lease Term at their own expense. To the extent that the return is overdue, the Lessees shall pay the occupancy fee to the Lessor according to the rental rate within the Lease Term, and shall ensure that the Leased Assets are in good condition and functional. In the case that the Lessees are unable to return the Leased Assets due to damage, loss or attachment or mixing with other things, the Lessor has the right to claim reasonable compensation from the Lessees.

The Lessees are expected to retain all of the Leased Assets upon the expiration of the Lease Term.

Guarantee for the Sale and Leaseback Contract

In order to successfully carry out the transactions under the Sale and Leaseback Contract, Mr. Guan Weili and Ms. Wang Lianyue, shareholders of the Company, will provide joint guarantee to Sinopharm Leasing for the Company, Pingyang Yining Hospital, Wenzhou Yining Hospital and Qingtian Kangning Hospital, and the Company will provide joint guarantee to Sinopharm Leasing for Pingyang Yining Hospital, Wenzhou Yining Hospital and Qingtian Kangning Hospital. The scope of the guarantee covers all the creditor's rights of Sinopharm Leasing against the Lessees under the Sale and Leaseback Contract, including but not limited to: (1) all payables by the Lessees to Sinopharm Leasing under the Sale and Leaseback Contract such as rent, down payment, handling fee and retention purchase price, if the interest rate agreed under the Sale and Leaseback Contract changes, any additional payments to be made by the Lessees as a result of the change; (2) penalties for late payment and damages that the Lessees shall bear in the event of breach of the Sale and Leaseback Contract; (3) the case acceptance fee, preservation fee, enforcement fee, publicity fee, appraisal fee, assessment fee, legal fee, preservation insurance fee, preservation guarantee fee and related expenses borne by the Lessees and incurred by Sinopharm Leasing as a result of the realization and relief of its rights under the Sale and Leaseback Contract, as well as all reasonable expenses such as dismantling, assembling, storage and transportation expenses, entrustment expenses, custody expenses and travel expenses for retrieving and disposing of the Leased Assets.

GENERAL INFORMATION

The Company

The Company is a joint stock limited liability company established under the laws of the PRC and is the largest private psychiatric medical group in the PRC, covering various regions of the PRC and running a network of medical institutions focusing on the provision of psychiatric specialty and geriatric rehabilitation services. The ultimate beneficial owners of the Company are Mr. Guan Weili and Ms. Wang Lianyue.

Pingyang Yining Hospital

Pingyang Changgeng Yining Hospital Co., Ltd. is a company established in the PRC with limited liability on January 14, 2021, one of the wholly-owned subsidiaries directly held by the Company. It is principally engaged in the provision of comprehensive medical services featuring geriatrics, om provision imate091 Twmrovision imatewnrovisioginer. Ier eficial owners of the Ce, n Weili and Msnyue.

Qingtian Kangning Hospital

Qingtian Kangning Hospital Co., Ltd. is a company established in the PRC with limited liability on April 1, 2011, one of the wholly-owned subsidiaries directly held by the Company. It is principally engaged in the provision of psychiatric specialist medical services. Its ultimate beneficial owners are Mr. Guan Weili and Ms. Wang Lianyue.

Sinopharm Leasing

Sinopharm Holding (China) Finance Leasing Co., Ltd. is a company incorporated in the PRC with limited liability on February 6, 2015. Its single largest shareholder is Sinopharm Group Co., Ltd., a company incorporated in the PRC and listed on the Main Board of the Stock Exchange (Stock Code: 1099), which directly and indirectly holds approximately 32.40% of the equity interest in Sinopharm Leasing. The ultimate beneficial owner of Sinopharm Group Co., Ltd. is China National Pharmaceutical Group Co., Ltd. (中國醫藥集團有限公司), a wholly state-owned enterprise incorporated in the PRC. Sinopharm Leasing is principally engaged in financial leasing business, leasing business, acquisition of leased properties locally and abroad, residual value treatment and maintenance of leased properties, advisory and guarantee of lease transactions, and commercial factoring business related to its principal business.

Mr. Guan Weili

Mr. Guan Weili is an executive Director and the chairman of the Board. Mr. Guan Weili is the spouse of Ms. Wang Lianyue. As of the date of this announcement, Mr. Guan Weili was deemed to have an interest in 22,044,750 domestic shares within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), of which 18,350,250 domestic shares were beneficially owned and 3,694,500 domestic shares were in the interest of the spouse.

Ms. Wang Lianyue

Ms. Wang Lianyue is an executive Director and the general manager of the Company. Ms. Wang Lianyue is the spouse of Mr. Guan Weili. As of the date of this announcement, Ms. Wang Lianyue was deemed to have an interest in 22,044,750 domestic shares within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), of which 3,694,500 domestic shares were beneficially owned and 18,350,250 domestic shares were in the interest of the spouse.

To the best of the knowledge, information and belief of the Directors after making all reasonable enquiries, Sinopharm Leasing and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND LEASEBACK CONTRACT

The main purpose of the sale and leaseback business is to supplement the liquidity of the Company and repay part of the Company's short-term debts that are due soon. The term of the sale and leaseback business is 5 years and the consideration will be repaid annually under the average capital plus interest method. The sale and leaseback business can solve the Company's due current loans of approximately RMB55.00 million in the short term and will help optimize the debt structure of the Company in the long term. Therefore, from the perspectives of long-term, medium-term and short-term analysis, the sale and leaseback business is beneficial to the debt risk management of the Company.

The Directors believe that the terms of the Sale and Leaseback Contract are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS OF THE LISTING RULES

Pursuant to Chapter 14 of the Listing Rules, as the highest applicable percentage ratios for transactions under the Sale and Leaseback Contract are more than 5% but less than 25%, the transactions under the Sale and Leaseback Contract constitute a discloseable transaction for the Company and are subject to the relevant announcement requirements under Chapter 14 of the Listing Rules but are exempt from the shareholders' approval requirements.

Pursuant to Chapter 14A of the Listing Rules, Mr. Guan Weili, an executive Director and the chairman of the Board, and Ms. Wang Lianyue, an executive Director and the general manager of the Company, are connected persons of the Company and therefore the guarantee given by Mr. Guan Weili and Ms. Wang Lianyue to the Group in respect of the Sale and Leaseback Contract constitutes a financial assistance received by the Group from the connected persons. As the relevant guarantee is on normal commercial terms or better terms and is not secured by the assets of the Group, the guarantee given by Mr. Guan Weili and Ms. Wang Lianyue to the Group is fully exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

DEFINITIONS

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

“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

“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
“PRC”	the People’s Republic of China, for the purpose of this announcement, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	the lawful currency of the PRC
“Sale and Leaseback Contract”	the Finance Lease Contract (Sale And Leaseback) dated December 19, 2023 between the Lessor and the Lessees, pursuant to which the Lessees have agreed to sell the Leased Assets to the Lessor for a consideration of RMB55.00 million and the Lessor has agreed to lease the Leased Assets back to the Lessees during the Lease Term
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it under the Listing Rules
“Wenzhou Yining Hospital”	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the wholly-owned subsidiaries indirectly held by the Company
“Pingyang Yining Hospital”	Pingyang Changgeng Yining Hospital Co., Ltd. (平陽長庚怡寧醫院有限公司), a company established in the PRC with limited liability on January 14, 2021, one of the wholly-owned subsidiaries directly held by the Company
“Qingtian Kangning Hospital”	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, one of the wholly-owned subsidiaries directly held by the Company
“%”	per cent

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

Zhejiang, the PRC
December 19, 2023