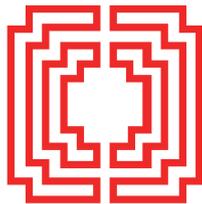


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溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.

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

Stock code: 2120

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

1 INTRODUCTION

- 1.1 The board of directors (the “**Board**”) of Wenzhou Kangning Hospital Co., Ltd. (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**” or “**our**”) for the financial year ended December 31, 2021 (the “**Reporting Period**”) with comparative figures for the previous financial year, i.e. financial year ended December 31, 2020.
- 1.2 The financial statements (the “**Financial Statements**”) of the Group for the Reporting Period are prepared in accordance with China Accounting Standards for Business Enterprises.
- 1.3 During the Reporting Period, the Group had certain matters that required retrospective correction because of prior period accounting errors. The financial data of the previous financial year, i.e. financial year ended December 31, 2020, has been restated accordingly. For details, please refer to the section headed “SIGNIFICANT EVENTS-Correction of accounting errors in prior periods” in this announcement.

2 FINANCIAL HIGHLIGHTS

2.1 Principal Financial Data and Indicators

| | For the year ended | | |
|---|---------------------------|------------------|------------------|
| | December 31, | | |
| | 2021 | 2020 | |
| | (RMB'000) | (RMB'000) | |
| | | (Restated) | |
| Revenue | 1,297,430 | 989,012 | |
| Profit before income tax | 95,704 | 74,318 | |
| Income tax expenses | 54,831 | 30,662 | |
| Net profit | 40,873 | 43,656 | |
| Net profit attributable to shareholders of the Company | 44,049 | 55,770 | |
| Non-controlling interests | -3,176 | -12,114 | |
| | As of | As of | As of |
| | December 31, | December 31, | January 1, |
| | 2021 | 2020 | 2020 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| | | (Restated) | (Restated) |
| Total assets | 2,377,968 | 2,161,275 | 2,025,514 |
| Total liabilities | 1,106,880 | 955,553 | 866,377 |
| Total equity | 1,271,088 | 1,205,722 | 1,159,137 |
| Equity attributable to shareholders of the Company | 1,199,073 | 1,113,057 | 1,070,745 |
| Non-controlling interests | 72,015 | 92,665 | 88,392 |

3 BUSINESS REVIEW AND OUTLOOK

3.1 Business Review

In 2021, while facing the COVID-19 pandemic (the “**Pandemic**”) and the complex external environment, the Group actively grasped the new situation and new requirements faced by the reform and development of health care in the new era, and has always upheld the value of “Respecting Life and Serving Humbly” to meet the diversified and all-round medical needs of patients by maintaining our medical core features and continuously improving our medical standards and our ability to serve. During the Reporting Period, the Group’s healthcare business continued to develop steadily, with specific progress made as follows:

In 2021, the Group’s owned hospitals have been developing steadily. The business of mature hospitals such as Cangnan Kangning Hospital, Yongjia Kangning Hospital and Yueqing Kangning Hospital continued to grow steadily. Existing new hospitals such as Geriatric Hospital, Hangzhou Cining Hospital and Pingyang Kangning Hospital have steadily passed the struggling period with a faster growth in business scale as compared with the same period of last year. Qingtian Kangning Hospital and Yongjia Kangning Hospital were successfully relocated to the new hospital sites and the number of beds available increased significantly to further provide space for development. Beijing Yining Hospital has gradually reduced the negative operational impact stemming from the Pandemic in the first half of 2021 through the introduction of an advanced management team. Meanwhile, Wenzhou Cining Hospital, Changchun Kanglin Psychological Hospital and Nanjing Yining Hospital, which were incorporated into the Group through mergers and acquisitions, were on the right track in their operations and contributed more significantly to the results of the Group during the Reporting Period. In addition, the homogeneous management model implemented by the Group in the regions has achieved good results with a strong business development of the four hospitals in Taizhou, namely Taizhou Kangning Hospital, Linhai Kangning Hospital, Luqiao Cining Hospital and Wenling Nanfang Hospital. As at December 31, 2021, the number of the Group’s owned hospitals increased to 27 (December 31, 2020: 24), including one independently established Internet hospital (Yining Psychology Internet Hospital), and the number of operating beds increased to 8,728 (December 31, 2020: 7,438).

In 2021, the scale of the Group’s development pattern of “Based in Wenzhou, intensively cultivated in Zhejiang” began to emerge. On the one hand, through external expansion and transformation, the Group has laid out the layout of the high-quality development industry. During the Reporting Period, the Group continued to expand the psychiatric specialty medical care market and vigorously developed the elderly rehabilitation medical sector. Pingyang Changgeng Yining Hospital was acquired, and Cangnan Yining Nursing Center was established. In addition, the Group also explored the development paths of new business through the construction of the “Internet mental health platform”, the integration of upstream pharmaceutical business and the social psychological service model, which laid the foundation for upgrading the Group’s industrial chain layout. On the other hand, the Group was promoting the construction of key projects in full swing to accumulate momentum for high-quality development. Among the key projects, the new campus building projects of Qingtian Kangning Hospital and Yongjia Kangning Hospital and the renovation project of Cangnan Yining Nursing Center were successfully completed and accepted and successively put into use. The renovation project of Wenzhou Ou Hai Yining Elderly Hospital was completed and accepted successfully. The major construction projects such as Qidu International Health & Pension Center and Wenzhou Kangning Taizhou Central Hospital were progressing orderly.

In 2021, the Group built a strong defense line for the prevention and control of the Pandemic, upheld the precise control to service the overall situation and took up a solid responsibility to fight against the Pandemic. The Group also spared no effort in protecting the health and safety of hospital patients and employees by establishing a psychological issue support team in combination with online assistance platforms and, at the same time, provided psychological counselling services to medical personnel and the public in need in the society.

In 2021, the Group focused on promoting the transformation and upgrading of hospital development to internal enhancement, which primarily includes (1) continuously improving the mental hygiene and psychological health service system, strengthening the professional talent team and informatization construction; (2) further promoting the construction of medical education, scientific research, clinical services, discipline connotation and quality construction, and establishing a new hospital development model with Kangning's characteristics; (3) speeding up the development of service integration model of "Internet + medical healthcare"; and (4) deepening the construction of featured disciplines, key disciplines and clinical research centers, continuously improving the quality and technical standards of medical services, and gradually enhancing the social recognition and brand influence of the Group.

3.2 Business Highlights

In 2021, the Group strived to build a major medical innovative platform for mental hygiene by putting in more effort in scientific research and informatization, attracting highly skilled and special talents and scientific research resources, and enhancing its independent innovation capabilities. During the Reporting Period, the Group successfully passed the recognition as a high-tech enterprise, laying a foundation for the Group to lead the industry in terms of independent intellectual property rights, transformation of scientific research results and growth indicators, and further enhancing the core competitiveness of the Group.

In 2021, the Group's flagship hospital, Wenzhou Kangning Hospital, was approved as the Zhejiang Provincial Clinical Research Center for Psychiatric Illnesses and the Zhejiang Branch of the National Clinical Research Center for Psychiatric Illnesses for comprehensive medical research and exploration in psychiatry (especially in the fields of diagnosis and treatment of children and adolescents, clinical and basic research on cognition disorders in the elderly, and digital psychiatry, etc.), and promoted the progress of the integration of clinical and scientific research. which was a milestone in the development of the mental hygiene field of the Group that marked the new level of the Group's clinical technology standard and the ability to serve professionally in medical psychiatry.

3.3 Business Outlook

The Group's financial position and operating results are mainly subject to the following risks:

- (i) Risk relating to high reimbursement amount from public medical insurance. From 2019 to 2021, reimbursement amount from public medical insurance accounted for 58.2%, 61.4% and 68.6% of the cash received from sales of goods and rendering of service for the respective years. If the Group's healthcare facilities are unable to maintain the qualification of designated medical insurance institutions in the future, or there are adverse changes on the national public medical insurance policy in respect of treatment of mental illness, the Group's operating results will be affected adversely;
- (ii) Risk relating to shortage of professional medical talents. Under the laws and regulations of the PRC, healthcare facilities shall maintain a certain number of medical staff. With the increase in the number of healthcare facilities of the Group, if we are unable to recruit or maintain adequate medical staff, we will face difficulties to provide patients with the desirable medical services, which in return will adversely affect our operating results; and
- (iii) Risk relating to failure to renew qualifications and licenses required for our operations. Healthcare facilities are required to obtain the medical practice license before carrying out their businesses, which usually has a valid period and requires regular inspections by the regulatory authorities. If the healthcare facilities of the Group are unable to renew their licenses in the future due to poor management or non-compliant operation, our operating results will be affected adversely.

Looking ahead, the health field will welcome important development opportunities while encountering many risks and challenges. On the one hand, the Fifth Plenary Session of the 19th Central Committee of the Communist Party of China proposed the major task of comprehensively promoting the construction of a healthy China, particularly after the Pandemic when the (mental) health awareness of the public has increased significantly. Together with the accelerating aging of society, medical health has become a key industrial investment field of social concern and a new growth point for economic development. On the other hand, the uncertainty of economic development and the global pandemic have profoundly affected the development of the field of health care. Under the background of a series of major reforms, such as the payment method reform of medical insurance, the reform of drug price and insurance linkage, and the reform of centralized volume-based procurement of drugs and medical consumables, higher and more comprehensive requirements have been put forward for the sustainable and healthy development of the Group.

Currently, the mental hygiene industry is still under the observation period with the support of macro policies, and the Group's business strength is gradually enhancing in all aspects. Where there are difficulties, there are hopes. Where there are challenges, there are opportunities. The Group will leverage the situation to advance, overcome the difficulties, and strive to create a new scene of high-quality development.

4 MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Financial Review

The Group recorded revenue of RMB1,297.4 million during the Reporting Period, representing an increase of 31.2% as compared with 2020. Among them, the revenue from operating its owned hospitals amounted to RMB1,202.8 million, representing an increase of 28.6% as compared with 2020. During the Reporting Period, the gross profit margin of its owned hospitals was 25.4% (2020: 25.0%). As such, the overall gross profit of the Group increased to RMB329.0 million, representing an increase of 26.6% as compared with 2020. During the Reporting Period, net profit attributable to shareholders of the Company amounted to RMB44.0 million, representing a decrease of 21.0% as compared with 2020.

4.1.1 Revenue and Cost of Revenue

The Group generates revenue mainly through the following three ways: (i) revenue from operating its owned hospitals; (ii) revenue from other healthcare related business; and (iii) other revenue not related to healthcare business.

The table below sets forth a breakdown of total revenue for the periods indicated:

| | For the year ended December 31, | |
|--|------------------------------------|---------------------------------|
| | 2021 (RMB'000) | 2020 (RMB'000) (Restated) |
| Revenue from operating owned hospitals | 1,202,774 | 935,612 |
| Revenue from other healthcare related business | 71,097 | 38,145 |
| Other revenue not related to healthcare business | 23,559 | 15,255 |
| Total revenue | 1,297,430 | 989,012 |

Revenue and cost of revenue from operating its owned hospitals

Revenue from operating its owned hospitals consists of fees (“**Billing Revenue**”) charged for outpatient visits and inpatient services at the Group’s various hospitals, which can be divided into treatment and general healthcare services and pharmaceutical sales, as well as variable considerations for medical services provided by the Group, including medical insurance settlement differences and loss of income from special medical services. The net amount after deducting the variable considerations is recorded as operating revenue of the Group.

The table below sets forth a breakdown of the Billing Revenue of the Group’s owned hospitals adjusted to operating revenue for the periods indicated:

| | For the year ended | |
|---|---------------------------|-----------------------|
| | December 31, | |
| | 2021 | 2020 |
| | (RMB’000) | (RMB’000) |
| | | (Restated) |
| Billing Revenue from owned hospitals | 1,229,996 | 978,466 |
| Less: medical insurance settlement differences | -18 | – |
| loss of income from special medical services ⁽¹⁾ | 27,240 | 42,854 |
| | <hr/> | <hr/> |
| Revenue from operating owned hospitals – net | <u>1,202,774</u> | <u>935,612</u> |

Note:

- (1) Loss of income from special medical services refers to the estimated unrecoverable charges for offering medical services by the Group to extremely deprived community members, low-end patients who are impoverished due to illness and other persons with special difficulties stipulated by the people’s government at or above the county level (the “**Patients in Need**”) pursuant to relevant policies.

For the Reporting Period, the Group’s Billing Revenue from its owned hospitals amounted to RMB1,230.0 million, 25.7% higher than 2020, which was mainly due to an increase in treatment and general healthcare services revenue driven by a higher outpatient visits and inpatient visits. During the Reporting Period, loss of income from special medical services amounted to RMB27.2 million, RMB15.6 million lower than 2020, mainly due to the increased reimbursement ratio of medical expenses on cross-regional patients for some local medical insurance authorities.

The table below sets forth a breakdown of the Billing Revenue, cost of revenue and gross profit of the Group's owned hospitals for the periods indicated:

| | For the year ended | |
|--|---------------------------|----------------|
| | December 31, | |
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | | (Restated) |
| Treatment and general healthcare services | | |
| Billing Revenue | 962,408 | 755,879 |
| Cost of revenue | 658,194 | 506,967 |
| Gross profit | 304,214 | 248,912 |
| Pharmaceutical sales | | |
| Billing Revenue | 267,588 | 222,587 |
| Cost of revenue | 238,918 | 194,544 |
| Gross profit | 28,670 | 28,043 |
| Billing Revenue from owned hospitals | 1,229,996 | 978,466 |
| Cost of revenue | 897,112 | 701,511 |
| Gross profit | 332,884 | 276,955 |

During the Reporting Period, Billing Revenue from the Group's owned hospitals amounted to RMB1,230.0 million, representing an increase of RMB251.5 million as compared with 2020, mainly due to the increase in Billing Revenue from Geriatric Hospital, Cangnan Kangning Hospital, and Wenzhou Cining Hospital and the mergers and acquisitions of Pujiang Yining Hospital and Pingyang Changgeng Yining Hospital, two hospitals with relatively matured business, as compared with 2020. During the Reporting Period, the gross profit of the Group's owned hospitals on Billing Revenue basis increased by 20.2% as compared with 2020, mainly due to the increase in inpatient bed-days and average inpatient spending per bed-day.

The table below sets forth a breakdown of Billing Revenue of the Group's owned hospitals by inpatients and outpatients for the periods indicated, with relevant operating data:

| | For the year ended | |
|---|---------------------------|----------------|
| | December 31, | |
| | 2021 | 2020 |
| Inpatients | | |
| Inpatient bed as at period end | 8,728 | 7,483 |
| Effective inpatient service bed-day capacity | 3,185,720 | 2,738,778 |
| Utilization rate (%) | 87.1 | 82.8 |
| Number of inpatient bed-days | 2,773,964 | 2,268,032 |
| Treatment and general healthcare services revenue attributable to inpatients (RMB'000) | 908,337 | 721,487 |
| Average inpatient spending per bed-day on treatment and general healthcare services (RMB) | 327 | 318 |
| Pharmaceutical sales revenue attributable to inpatients (RMB'000) | 145,349 | 123,061 |
| Average inpatient spending per bed-day on pharmaceutical sales (RMB) | 52 | 54 |
| Total inpatient revenue (RMB'000) | 1,053,686 | 844,548 |
| Total average inpatient spending per bed-day (RMB) | 380 | 372 |
| Outpatients | | |
| Number of outpatient visits | 402,666 | 277,215 |
| Treatment and general healthcare services revenue attributable to outpatients (RMB'000) | 54,071 | 34,392 |
| Average outpatient spending per visit on treatment and general healthcare services (RMB) | 134 | 124 |
| Pharmaceutical sales revenue attributable to outpatients (RMB'000) | 122,239 | 99,526 |
| Average outpatient spending per visit on pharmaceutical sales (RMB) | 304 | 359 |
| Total outpatient revenue (RMB'000) | 176,310 | 133,918 |
| Total average outpatient spending per visit (RMB) | 438 | 483 |
| Total treatment and general healthcare services revenue (RMB'000) | 962,408 | 755,879 |
| Total pharmaceutical sales revenue (RMB'000) | 267,588 | 222,587 |

During the Reporting Period, inpatient Billing Revenue amounted to RMB1,053.7 million, representing an increase of 24.8% as compared with that of 2020, primarily due to: (i) the number of the Group's inpatient bed-days increased by 22.3%, which was driven by the increase in the inpatient bed-days of Cangnan Kangning Hospital, Geriatric Hospital, Wenzhou Cining Hospital, Chun'an Kangning Hospital and Pujiang Yining Hospital; and (ii) the average inpatient spending per bed-day of the Group's owned hospitals increased by 2.2%. The proportion of inpatient Billing Revenue to Billing Revenue from owned hospitals was 85.7% (2020: 86.3%).

During the Reporting Period, outpatient Billing Revenue amounted to RMB176.3 million, representing an increase of 31.7% as compared with 2020, primarily due to the increase of outpatient visits by 45.3% and the decrease in average outpatient spending per visit by 9.3%. The proportion of outpatient Billing Revenue to Billing Revenue from owned hospitals was 14.3% (2020: 13.7%).

During the Reporting Period, due to the increase of both inpatient and outpatient business, Billing Revenue from treatment and general healthcare services increased by 27.3% as compared with 2020, and increased to 78.2% of Billing Revenue from owned hospitals (2020: 77.3%); Billing Revenue from pharmaceutical sales increased by 20.2% as compared with 2020, accounting for 21.8% of Billing Revenue from owned hospitals (2020: 22.7%), of which: the ratio of inpatient pharmaceutical sales to total inpatient Billing Revenue decreased to 13.8% (2020: 14.6%), the ratio of outpatient pharmaceutical sales to total outpatient Billing Revenue decreased to 69.3% (2020: 74.3%).

Cost of revenue of the Group's owned hospitals primarily consisted of pharmaceuticals and consumables used, employee benefits and expenses, depreciation of right-of-use assets, depreciation and amortization, canteen expenses and testing fees. The table below sets forth a breakdown of cost of revenue of the Group's owned hospitals for the periods indicated:

| | For the year ended | |
|---|---------------------------|----------------|
| | December 31, | |
| | 2021 | 2020 |
| | (RMB'000) | (RMB'000) |
| | | (Restated) |
| Pharmaceuticals and consumables used | 310,090 | 247,235 |
| Employee benefits and expenses | 321,207 | 238,345 |
| Depreciation of right-of-use assets | 42,283 | 31,132 |
| Depreciation and amortization | 75,386 | 75,906 |
| Canteen expenses | 53,470 | 42,653 |
| Testing fees | 25,595 | 26,463 |
| Others | 69,081 | 39,777 |
| | <hr/> | <hr/> |
| Cost of revenue of owned hospitals | 897,112 | 701,511 |
| | <hr/> <hr/> | <hr/> <hr/> |

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB897.1 million, representing an increase of 27.9% as compared with 2020. It was mainly due to: (i) the increase of 25.4% in pharmaceuticals and consumables expenses relating to the increase of pharmaceutical sales; (ii) the increase of 34.8% in employee benefits and expenses arising from the increase in beds in operation of owned hospitals; and (iii) depreciation of right-of-use assets increased by 35.8% as compared with that of 2020.

From the cost portfolio structure perspective, the proportion of pharmaceuticals and consumables used in the cost of revenue of owned hospitals slightly decreased to 34.6% (2020: 35.2%). The proportion of employee benefits and expenses to cost of revenue of owned hospitals increased to 35.8% (2020: 34.0%). The proportion of the depreciation of right-of-use assets together with depreciation and amortization to cost of revenue of owned hospitals slightly decreased to 13.1% (2020: 15.3%).

Revenue from other healthcare related business

The revenue from other healthcare related business of the Group primarily includes revenue from sales of medical devices, revenue from pharmaceutical sales outside the hospitals, revenue from social mental service and revenue from healthcare information technology business, etc. During the Reporting Period, revenue from the other healthcare related business of the Group amounted to RMB71.1 million, of which revenue from sales of pharmaceuticals and medical devices outside the hospitals was RMB51.6 million (2020: RMB12.0 million).

Other revenue not related to healthcare business

The Group's other revenue not related to healthcare business includes property leasing income, property sales income, etc. During the Reporting Period, revenue from the property business was RMB23.6 million (2020: RMB15.3 million), mainly due to the sales income of RMB16.0 million from disposal of investment property by Wenzhou Guoda during the Reporting Period (2020: RMB3.9 million).

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group on operating income basis amounted to RMB329.0 million, representing an increase of 26.6% as compared with 2020. The gross profit of the owned hospitals businesses on operating income basis amounted to RMB305.0 million, representing an increase of 30.3% as compared with 2020. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

| | For the year ended | |
|---|---------------------------|-------------------|
| | December 31, | |
| | 2021 | 2020 |
| | | (Restated) |
| Treatment and general healthcare services | 29.6% | 28.9% |
| Pharmaceutical sales | 10.7% | 12.6% |
| Owned hospitals businesses | 25.4% | 25.0% |
| Property and other businesses | 24.7% | 48.2% |
| Consolidated gross profit margin | 25.4% | 26.3% |

During the Reporting Period, consolidated gross profit margin of the Group decreased to 25.4% (2020: 26.3%), of which the gross profit margin of treatment and general healthcare services increased by 0.7 percentage points as compared with that of 2020. The gross profit margin of pharmaceutical sales decreased by 1.9 percentage points as compared with that of 2020.

4.1.3 Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB5.8 million (2020: RMB5.4 million).

4.1.4 Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB10.3 million (2020: RMB8.1 million). The selling expenses accounted for 0.9% of the revenue from operating owned hospitals of the Group (2020: 0.9%).

4.1.5 Administrative Expenses

During the Reporting Period, administrative expenses of the Group primarily consist of benefits and expenses for the management and administrative staff, depreciation and amortization, consultancy expenses, travelling expenses and other expenses. The table below sets forth a breakdown of administrative expenses of the Group for the periods indicated:

| | For the year ended | |
|--------------------------------------|--------------------|----------------|
| | December 31, | |
| | 2021 | 2020 |
| | (RMB'000) | (RMB'000) |
| | | (Restated) |
| Employee benefits and expenses | 100,510 | 77,140 |
| Depreciation and amortization | 22,117 | 11,815 |
| Consultancy expenses | 13,014 | 7,449 |
| Travelling expenses | 2,835 | 3,243 |
| Others | 37,896 | 28,730 |
| Total administrative expenses | 176,372 | 128,377 |

During the Reporting Period, the administrative expenses of the Group amounted to RMB176.4 million, representing an increase of 37.4% as compared with that of 2020. The proportion of the administrative expenses to the revenue from operating owned hospitals of the Group was 14.7% (2020: 13.7%).

4.1.6 Research and Development Expenses

During the Reporting Period, the Group's research and development expenses mainly consisted of clinical research, development of informatization software, construction of Internet hospital platform and research and development of medical devices. The following table sets forth a breakdown of the Group's research and development expenses for the periods indicated:

| | For the year ended | |
|---|--------------------|---------------|
| | December 31, | |
| | 2021 | 2020 |
| | (RMB'000) | (RMB'000) |
| | | (Restated) |
| Clinical research | 16,487 | 15,877 |
| Development of informatization software | 8,059 | 2,981 |
| Construction of Internet hospital platform | 3,114 | 2,115 |
| Research and development of medical devices | 302 | — |
| Total | 27,962 | 20,973 |

During the Reporting Period, the Group's research and development expenses amounted to RMB28.0 million (2020: RMB21.0 million), representing an increase of 33.3% as compared with 2020. The proportion of research and development expenses to the revenue from operating owned hospitals of the Group was 2.3% (2020: 2.2%), which was mainly due to: (i) the continuous increase in investments in the development of information software, social mental service platform and Internet hospital applications by the Group; and (ii) the implementation of an incentive policy to encourage doctors to engage in clinical research and the improvement on management of clinical research projects and accounting of research and development expenses by Wenzhou Kangning Hospital.

4.1.7 Finance Expenses – Net

Our finance income includes interest income from bank deposits, and the finance expenses include foreign exchange losses, borrowing interest expense and the interest expenses on lease liabilities. The table below sets forth a breakdown of our finance expenses for the periods indicated:

| | For the year ended | |
|--|----------------------|----------------------|
| | December 31, | |
| | 2021 | 2020 |
| | (RMB'000) | (RMB'000) |
| | | (Restated) |
| Interest income | -1,691 | -4,677 |
| Foreign exchange losses | 39 | 259 |
| Borrowing interest expense | 21,978 | 15,910 |
| Interest expenses on lease liabilities | 14,290 | 10,903 |
| Others | 3,042 | 682 |
| | <u>37,658</u> | <u>23,077</u> |
| Finance expenses – net | <u>37,658</u> | <u>23,077</u> |

During the Reporting Period, the net finance expenses of the Group amounted to RMB37.7 million, representing an increase of RMB14.6 million as compared with that of 2020, of which, borrowing interest expense increased by 38.1% as compared with that of 2020, mainly due to the increase in bank loans of the Group resulting in the increase of interest expenses on lease liabilities of RMB3.4 million as compared with that of 2020.

4.1.8 Investment Income/(Losses)

Our investment income/(losses) consist of share of losses of investments accounted for using the equity method, gains arising from disposal of long-term equity investment, interest from structured deposit and dividend income from funds. The table below sets forth a breakdown of our investment income/(losses) for the periods indicated:

| | For the year ended | |
|--|---------------------|----------------------|
| | December 31, | |
| | 2021 | 2020 |
| | (RMB'000) | (RMB'000) |
| | | (Restated) |
| Share of losses of investments accounted for using the equity method | -6,566 | -7,148 |
| Gains arising from disposal of long-term equity investment | 7,088 | 83 |
| Interest from structured deposit | – | 96 |
| Dividend income from funds | 6,429 | – |
| | <u>6,951</u> | <u>-6,969</u> |
| | <u>6,951</u> | <u>-6,969</u> |

During the Reporting Period, our investment income amounted to RMB7.0 million, mainly due to gains arising from the disposal of equity investment of Wenzhou Guoda and the bonus distribution from Jinpu Fund. Among the said amount, there was attributable investment loss of RMB6.6 million accrued under the equity method which primarily included the investment loss from the investment in Hangzhou Anken Information Technology Co., Ltd. and Shaanxi Shanda Hospital Management Co., Ltd.

4.1.9 Credit Impairment Losses

During the Reporting Period, credit impairment losses amounted to RMB2.1 million (2020: RMB0.5 million (before restatement: RMB23.1 million)), mainly due to changes in accounting treatment from provision for bad debts for accounts receivable to provision for loss of income from special medical services in respect of variable consideration in revenue, in light of charges for offering medical services by the Group to the Patients in Need that may be unrecoverable.

4.1.10 Asset Impairment Losses

During the Reporting Period, asset impairment losses amounted to RMB6.2 million, which was due to the impairment of goodwill arising from the acquisition of Beijing Yining Hospital and Guanxian Yining Hospital by the Group as a result of the Pandemic.

4.1.11 Non-Operating Income and Non-Operating Expenses

Our non-operating income mainly consists of government grants, donations received and demolition and reallocation compensation income, and non-operating expenses mainly consist of losses on scrapping of non-current assets, donation expenses, expenses for medical disputes and expenses for breach of contract. The table below sets forth a breakdown of our non-operating income and non-operating expenses for the periods indicated:

| | For the year ended | |
|---|---------------------------|--------------|
| | December 31, | |
| | 2021 | 2020 |
| | (RMB'000) | (RMB'000) |
| | | (Restated) |
| Government grants | 266 | 59 |
| Donations received | 9,470 | 2,183 |
| Demolition and reallocation compensation income | 1,800 | – |
| Other non-operating income | 300 | 1,555 |
| | <u>11,836</u> | <u>3,797</u> |
| Non-operating income | 11,836 | 3,797 |
| Losses on scrapping of non-current assets | 166 | 419 |
| Donation expenses | 3,333 | 2,037 |
| Expenses for medical disputes | 1,399 | 1,519 |
| Expenses for breach of contract | 2,000 | – |
| Other non-operating expenses | 1,737 | 427 |
| | <u>8,637</u> | <u>4,402</u> |
| Non-operating expenses | 8,637 | 4,402 |

During the Reporting Period, the non-operating income of the Group amounted to RMB11.8 million, representing an increase of RMB8.0 million as compared with that of 2020, mainly due to the increase in donation received of RMB7.3 million compared with that of last year. During the Reporting Period, the non-operating expenses of the Group increased to RMB8.6 million, mainly due to the increase in donation expenses of RMB1.3 million as compared with that of 2020 and the increase of RMB2.0 million in expenses for breach of contract compared with that of the same period of 2020.

4.1.12 Income Tax Expense

During the Reporting Period, income tax expense increased to RMB54.8 million (2020: RMB30.7 million), representing an increase of 78.8% as compared with 2020, mainly due to the write-off of RMB24.5 million of deferred tax assets recognized by some subsidiaries due to deductible losses in prior years during the Reporting Period. In 2021 and 2020, our actual tax rate was 57.3% and 41.3%, respectively.

4.2 Financial Position

4.2.1 Inventory

As of December 31, 2021, inventory balances amounted to RMB56.5 million (as of December 31, 2020: RMB37.5 million), mainly including the medical inventory and turnover materials.

4.2.2 Accounts Receivables

As of December 31, 2021, the balance of accounts receivables amounted to RMB311.8 million (restated as of December 31, 2020: RMB225.3 million), representing an increase of 38.4% as compared with that of December 31, 2020, mainly due to the increase in operational income of the Group's owned hospital. For details on the restatement of accounts receivables as at 31 December 2020, please refer to "SIGNIFICANT EVENTS-Correction of accounting errors in prior periods" in this announcement.

During the Reporting Period, the accounts receivables turnover days of the Group's owned hospitals businesses were 37 days (2020: 41 days).

4.2.3 Other Receivables and Prepayments

As of December 31, 2021, other receivables and prepayments decreased to RMB41.8 million (as of December 31, 2020: RMB73.4 million).

4.2.4 Investment Properties

As of December 31, 2021, the Group had no investment properties (as of December 31, 2020: RMB107.8 million). The original investment properties were held by Wenzhou Guoda. During the Reporting Period, the Group disposed of the entire equity interest in Wenzhou Guoda and ceased to have any interest in it (please refer to the announcement of the Company dated June 24, 2021 for details).

4.2.5 Other Non-current Financial Assets

As of December 31, 2021, the balance of other non-current financial assets was RMB65.8 million (as of December 31, 2020 (restated): RMB57.4 million). During the Reporting Period, the fair value of other non-current financial assets increased by RMB8.4 million, which was mainly due to the increase in fair value of the Group's investment in Jinpu Fund.

4.2.6 Right-of-use Assets

As of December 31, 2021, right-of-use assets increased to RMB257.4 million (as of December 31, 2020 (restated): RMB232.6 million), mainly due to the increase in right-of-use assets of RMB24.8 million as a result of new lease contracts entered into by the Group during the Reporting Period.

4.2.7 Accounts Payables

As of December 31, 2021, accounts payables decreased to RMB69.2 million (as of December 31, 2020 (restated): RMB72.0 million).

4.2.8 Receipts in Advance and Contract Liabilities

As of December 31, 2021, receipts in advance and contract liabilities decreased to RMB16.3 million (as of December 31, 2020 (restated): RMB17.6 million).

4.2.9 Other Payables

As of December 31, 2021, other payables decreased to RMB66.5 million (as of December 31, 2020 (restated): RMB85.8 million), mainly due to the decrease in incentive shares repurchase payables of RMB23.3 million.

4.3 Liquidity and Capital Resources

The table below sets forth the information as extracted from the consolidated cash flow statements of the Group for the periods indicated:

| | For the year ended | |
|--|--------------------|---------------|
| | December 31, | |
| | 2021 | 2020 |
| | (RMB'000) | (RMB'000) |
| | | (Restated) |
| Net cash generated from operating activities | 193,896 | 199,656 |
| Net cash used in investing activities | -239,049 | -186,320 |
| Net cash generated from financing activities | 33,833 | 22,052 |
| Net increase in cash and cash equivalents | <u>-11,358</u> | <u>35,141</u> |

4.3.1 Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB193.9 million, primarily consisting of net profit of RMB44.0 million, adjustments of RMB8.3 million for credit impairment losses and asset impairment losses and adjustments of RMB143.4 million for depreciation and amortisation of various assets. Changes in working capital resulted in cash outflow of RMB61.3 million.

4.3.2 Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities amounted to RMB -239.0 million, primarily due to the amount of RMB178.5 million for purchasing property, plant and equipment, including the payments for the relocation projects of Qingtian Kangning Hospital and Yongjia Kangning Hospital and for the purchase of land use rights of Linhai Cining Hospital and the expense of RMB80.6 million for acquisition of Pingyang Changgeng Yining Hospital.

4.3.3 Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities amounted to RMB33.8 million.

4.3.4 Significant Investment, Acquisition and Disposal

The Group had no significant investment, acquisition and disposal during the Reporting Period.

4.4 Indebtedness

4.4.1 Bank Borrowings

As of December 31, 2021, the balance of bank borrowings of the Group amounted to RMB553.2 million (as of December 31, 2020: RMB426.5 million), primarily attributable to repayment of borrowings of RMB422.3 million and an increase in borrowings of RMB549.0 million during the Reporting Period.

4.4.2 Contingent Liability

As of December 31, 2021, the Group had no contingent liability or guarantees that would have a material impact on the financial position or operation of the Group.

4.4.3 Asset Pledge

The Group's Wenzhou Kangning Hospital pledged property ownership certificates, namely Wenfang Quanzheng Lucheng District No. 826751, Wenfang Quanzheng Lucheng District No. 826750, Zhe (2016) Wenzhou Real Estate Rights No. 0010144, Zhe (2016) Wenzhou Real Estate Rights No. 0010142, and Zhe (2021) Wenzhou Real Estate Rights No. 0081628, to China CITIC Bank Wenzhou Ou Hai Sub-branch for obtaining a bank loan. As at December 31, 2021, the balance of such pledged loan was RMB200.0 million.

4.4.4 Lease Liabilities

The lease liabilities of the Group primarily consist of operating lease arrangements. As of December 31, 2021, the present values of unsettled lease payments under non-cancellable lease agreements, after deducting an amount of RMB30.0 million which is due within one year, were RMB231.7 million.

4.4.5 Financial Instruments

Financial instruments of the Group consist of accounts receivable, other non-current financial assets, other receivables, cash and cash equivalents, bank borrowings, accounts payable and other payables. The Company's management manages and monitors these risks to ensure effective measures are implemented in a timely manner.

4.4.6 Exposure to Fluctuation in Exchange Rates

The Group deposits certain of its financial assets in foreign currencies, which mainly involve risks of fluctuations in the exchange rate of HKD against RMB. The Group is exposed to foreign exchange risks accordingly.

As of December 31, 2021, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

4.4.7 Gearing Ratio

As of December 31, 2021, the Group's gearing ratio (total liabilities divided by total assets) increased to 46.5% (as of December 31, 2020: 44.2%), mainly due to an increase of bank borrowings.

4.4.8 Employees and Remuneration Policy

As of December 31, 2021, the Group had a total of 3,661 full-time employees (as of December 31, 2020: 3,338 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB443.3 million (2020: RMB339.1 million). The average employees' remuneration is RMB123.6 thousand per year (including social medical insurance scheme and housing grant scheme borne by the Group). The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee.

In order to fully mobilize the enthusiasm of senior management and core technical personnel of the Group, the Company drafted the Equity Incentive Scheme for the Year 2018 of Wenzhou Kangning Hospital Co., Ltd. (the "**Equity Incentive Scheme**"), which was considered and approved at the annual general meeting of the Company for the year 2017 which has been convened on June 13, 2018 (the "**2017 AGM**"). Unless otherwise specified, capitalized terms used below shall have the same meanings as those defined in the announcement of the Company dated May 29, 2018 and the supplementing circular of the Company dated May 30, 2018.

In respect of the Equity Incentive Scheme, the participants of the first actual grant comprised a total of 165 persons, with 1,818,529 incentive shares granted. The participants of the second phase of the actual grant comprised a total of 23 persons, with 180,516 incentive shares granted. The participants (including connected persons) of the third phase of the actual grant comprised a total of 13 persons, with 540,229 incentive shares granted. As of the date of this report, a total of 8 participants exited, corresponding to a total of 79,274 incentive shares. As of the date of this report, the participants of the actual grant under the Equity Incentive Scheme comprised 193 persons, and all 2,460,000 incentive shares proposed to be granted have been granted. The incentive shares granted accounted for 3.2976% of the total issued share capital of the Company as of the date of this report. The incentive shares were unlocked at one time after 48 months from the date of the first grant, and the grant price was RMB10.47/ share.

5 SIGNIFICANT EVENTS

5.1 Dividend

The Board does not recommend the payment of a final dividend to the Shareholders for the year ended December 31, 2021.

5.2 Independent investigation related matters

Trading in the Company's shares has been suspended from April 1, 2022 pending the publication of the annual results for the year ending December 31, 2021. The delay in the publication of the 2021 annual results is due to (i) the ongoing independent investigation by the Company's independent investigation committee to resolve the outstanding issues referred to by PwC, the former auditor of the Company, in its letter of resignation; and (ii) BDO China Shu Lun Pan Certified Public Accountants LLP ("**BDO**"), the Company's current auditor, needs more time for the follow-up work in completing the audit procedures in relation to the 2021 annual results.

The unresolved issues referred to by PwC, the former auditor of the Company, in its resignation letter include: (1) findings on verification of cash flows in personal bank accounts of key financial personnel of the Company; (2) findings on verification of cash flows in personal bank account of a certain employee of the social work department of the Company; and (3) findings on verification of cash flows in personal bank account of a senior management officer of the Company.

On March 14, 2022, the independent investigation committee of the Company appointed an independent third-party accounting firm as the independent investigation firm (the "**Investigation Firm**") to independently investigate the relevant issues in relation to cash flows, namely (1) cash flows in personal bank accounts of key financial personnel (the "**Alleged Area I**"); (2) cash flows in personal bank account of a certain employee of the social work department of the Company (the "**Alleged Area II**"); and (3) cash flows in personal bank account of a senior management officer of the Company (the "**Alleged Area III**"). During the period from March 14, 2022 to September 23, 2022, the Investigation Firm completed the relevant works, and issued an independent investigation report on the abovementioned alleged areas on October 14, 2022.

The independent investigation committee of the Company is of the view that the independent investigation report has been thoroughly conducted by professionals and has been completed to the extent presently and reasonably possible. The Board has decided to rectify all issues arising from the alleged areas with reference to the independent investigation report.

In view of the above, the Board has proposed the following remedial measures in response to the Company's operational and internal control problems:

1. Carrying out the necessary changes to the Board and the management of the Company;
2. Regarding the personal interests obtained by Ms. WANG Hongyue from Alleged Area III, the Company will consider commencing judicial proceedings for civil recovery against her after obtaining legal advice on the same;
3. Strengthening the use of external expert support;
4. Reassessing accounting treatment and making necessary corrections of prior accounting errors, if any;
5. Relevant treatment of the Indirect Investor and the Renovation Supplier and the Actual Controller involved in Alleged Area I and Alleged Area III;
6. Strengthening the internal control system and compliance supervision.

For details of the independent investigation, please refer to the announcement of the Company dated October 14, 2022.

5.3 Correction of accounting errors in previous periods

As mentioned in paragraph 5.2 of this announcement, certain matters identified by the independent investigation may have an impact on the disclosed 2020 financial statements of the Company, the Proposal on Correction of Accounting Errors to the Disclosed 2020 Financial Statements was considered and approved on the Thirtieth Meeting of the Third Session of the Board of Directors and the Eighth Meeting of the Third Session of the Supervisory Committee of the Company. The correction of errors in previous periods to the disclosed 2020 financial statements is as follows:

5.3.1 Reasons for and contents of correction of accounting errors in previous periods

5.3.1.1 Correction of the questionable accounts receivable collected to liabilities

The independent investigation indicated that in 2019 and 2020, RMB14.43 million of the accounts receivable collected by the Company were unable to be identified as fairly agreed donations, of which, approximately RMB5.25 million was likely to be rental compensation, and the source of funding for the remaining RMB9.18 million was difficult to be confirmed. As recommended by the independent investigation committee and resolved by the Board, the above-mentioned RMB14.43 million was not treated as accounts receivable collected. The impact of the error correction on the 2020 financial statements was to increase other receivables by RMB12,878, increase other payables by RMB9,203,741, increase advance proceeds by RMB4,079,444, increase revenue by RMB582,778 and decrease the retained earnings at the beginning of the period by RMB13,853,085.

5.3.1.2 Reversal of donations from charities to patients to non-operating income

Some of the poverty-stricken patients of the Company have applied for assistance from charitable organizations, and the related relief funds were transferred to the Company directly from the charitable organizations. Previously, the Company treated such grants from charitable organizations as collections from accounts receivable from patients. After consideration by the Board, it was considered more prudent to treat those grants as donations to the Company, and to present the donations from the Company to charitable organizations and donations from charitable organizations to patients on a net basis. The effect of this error correction on the 2020 financial statements was to increase non-operating income by RMB9,387,737 and to decrease the retained earnings at the beginning of the period by RMB9,387,737.

5.3.1.3 Revaluation of adjustments to income and relevant accounts receivable and provision for bad debts from variable consideration reversal amounts

Since the source of RMB14.43 million in accounts receivable collected in 2019 and 2020 is questionable, the Company re-estimated the proportion of variable consideration reversal, reduced the revenue in 2019 and 2020, and re-evaluated the proportion of provision for bad debts of accounts receivable at the end of 2019 and 2020 accordingly. The impact of this error correction on the 2020 financial statements was to reduce revenue by RMB42,854,534, reduce accounts receivable by RMB122,475,220, reduce provision for bad debts of accounts receivables by RMB25,802,668, reduce credit impairment losses by RMB22,642,264 and reduce the retained earnings at the end of the period by RMB76,460,282.

5.3.1.4 The deferred income tax assets were corrected accordingly based on the corrected deductible temporary differences. The impact of the error correction on the 2020 financial statements was to reduce deferred income tax assets by RMB6,318,433, increase income tax expense by RMB1,713,524, increase capital surplus by RMB706,663 and reduce the retained earnings at the beginning of the year by RMB5,311,571.

5.3.1.5 *Other error corrections not directly related to the independent investigation matters*

Other than the independent investigation matters, the Company also re-examined other accounting treatments in 2020 and found certain immaterial accounting errors, which were corrected together with the consideration of the Board in the spirit of being as accurate as possible, details of which are as follows:

(All amounts in RMB Yuan unless otherwise stated)

| Reason and content of correction | Affected items in the financial statements for 2020 | Affected amount |
|--|--|----------------------------|
| Presentation of donation expenses and income for the same charitable organization on a net basis | Non-operating income | -6,500,000 |
| | Non-operating expenses | -6,500,000 |
| Correction of a step-by-step corporate combination not under the common control to a business combination under a “package deal” arrangement | Goodwill | 7,594,256 |
| | Capital surplus | 7,776,668 |
| | Non-controlling interests | -182,412 |
| Correction of errors in subsequent measurements based on the latest available audit reports of associates | Long-term equity investments | 4,090,422 |
| | Investment income | 696,747 |
| | Capital surplus | 4,914,906 |
| | Retained earnings at the beginning of the period | -1,521,231 |

| Reason and content of correction | Affected items in the financial statements for 2020 | Affected amount |
|--|--|----------------------------|
| Correction of errors in contracts which satisfy the nature of leases in accordance with leasing standards | Right-of-use assets | 5,044,161 |
| | Advances to suppliers | -604,066 |
| | Lease liabilities | 4,799,946 |
| | Cost of sales | -10,987 |
| | Finance expenses | 255,694 |
| | Retained earnings at the beginning of the period | -115,144 |
| Correction of intermediary fees prior to IPO filing from prepayments to general and administrative expenses | Advances to suppliers General and administrative expenses | -1,414,307 1,414,307 |
| Correction of cost of sales settled across periods | Accounts payable | 2,381,937 |
| | Cost of sales | 2,381,937 |
| Correction of the presentation of cost of sales and general and administrative expenses | Cost of sales | -1,900,145 |
| | General and administrative expenses | 1,900,145 |
| Correction of errors in provision for bad debts of other receivables from cancelled subsidiaries | Provision for bad debts of other receivables | -30,010 |
| | Retained earnings at the beginning of the period | 30,010 |
| As the above errors related to subsidiaries, they had an impact on the net assets of the Company calculated on an ongoing basis at the point of acquisition of the non-controlling shareholders of the relevant subsidiaries, and on the non-controlling interests of the Company as of the balance sheet date | Capital surplus | 1,544,299 |
| | Retained earnings at the beginning of the period | 8,186,822 |
| | Non-controlling interests | -9,731,121 |
| Other reclassification errors | Accounts receivable | 564,834 |
| | Advances | 564,834 |

5.3.2 Accumulated impacts of the correction of accounting errors in previous periods on the 2020 financial statements

(1) Consolidated Income Statement

(All amounts in RMB Yuan unless otherwise stated)

| Item | Restated | Accumulated amounts impacted by error correction | Before restatement |
|---|-------------|--|--------------------|
| 1. Total revenue | 989,012,004 | -42,271,756 | 1,031,283,760 |
| Of which: Revenue from main businesses | 935,611,626 | -42,854,534 | 978,466,160 |
| Revenue from other businesses | 53,400,378 | 582,778 | 52,817,600 |
| 2. Total cost of sales | 729,172,658 | 470,806 | 728,701,852 |
| Of which: Cost of sales for main businesses | 701,510,604 | 470,806 | 701,039,798 |
| General and administrative expenses | 128,376,895 | 3,314,450 | 125,062,445 |
| Financial expenses | 23,077,402 | 255,694 | 22,821,708 |
| Investment income | -6,968,566 | 696,745 | -7,665,311 |
| Credit impairment losses | -483,492 | 22,642,264 | -23,125,756 |
| 3. Operating profit | 74,923,423 | -22,973,697 | 97,897,120 |
| Add: Non-operating income | 3,796,777 | 2,887,737 | 909,040 |
| Less: Non-operating expenses | 4,401,945 | 10,901,945 | 10,901,945 |
| 4. Total profit | 74,318,254 | -13,585,961 | 87,904,215 |
| Less: Income tax expenses | 30,662,195 | 1,713,524 | 28,948,671 |
| 5. Net profit | 43,656,059 | -15,299,485 | 58,955,544 |
| 6. Other comprehensive income, net of tax | | | |
| Net profit attributable to owners of the parent company | 55,770,161 | -14,229,973 | 70,000,134 |
| Non-controlling interests | -12,114,102 | -1,069,512 | -11,044,590 |

(2) Consolidated Balance Sheet

(All amounts in RMB Yuan unless otherwise stated)

| Item | Restated | Accumulated amounts impacted by error correction | Before restatement |
|--|----------------------|--|----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Accounts receivable | 233,405,185 | -121,910,386 | 355,315,571 |
| Less: Provision for bad debts of accounts receivable | 8,104,938 | -25,802,668 | 33,907,606 |
| Accounts receivable, net | 225,300,247 | -96,107,718 | 321,407,965 |
| Prepayments | 9,909,510 | -2,018,372 | 11,927,882 |
| Other receivables | 68,262,205 | 12,879 | 68,249,326 |
| Less: Provision for bad debts of other receivables | 4,783,503 | -30,010 | 4,813,513 |
| Other receivables, net | 63,478,702 | 42,889 | 63,435,813 |
| Total current assets | 542,696,494 | -98,083,201 | 640,779,695 |
| Non-current assets: | | | |
| Long-term equity investments | 97,816,934 | 4,090,423 | 93,726,511 |
| Right-of-use assets | 232,612,441 | 5,044,162 | 227,568,279 |
| Goodwill | 79,199,853 | 7,594,254 | 71,605,599 |
| Deferred tax assets | 40,258,387 | -6,318,433 | 46,576,820 |
| Total non-current assets | 1,618,578,158 | 10,410,406 | 1,608,167,752 |
| TOTAL ASSETS | 2,161,274,652 | -87,672,795 | 2,248,947,447 |

| Item | Restated | Accumulated amounts impacted by error correction | Before restatement |
|---|----------------------|--|-----------------------|
| LIABILITIES AND OWNERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | 71,955,864 | 2,381,937 | 69,573,927 |
| Advances | 4,644,283 | 4,644,283 | – |
| Other payables | 85,807,142 | 9,203,742 | 76,603,400 |
| Total current liabilities | 615,280,844 | 16,229,962 | 599,050,882 |
| Non-current liabilities: | | | |
| Lease liabilities | 194,601,230 | 4,799,946 | 189,801,284 |
| Total non-current liabilities | 340,272,113 | 4,799,945 | 335,472,168 |
| Total liabilities | 955,552,957 | 21,029,907 | 934,523,050 |
| Owners' equity: | | | |
| Capital surplus | 819,509,065 | 14,942,536 | 804,566,529 |
| Retained earnings | 205,665,236 | -113,731,705 | 319,396,941 |
| Total equity attributable to owners of the parent company | 1,113,056,686 | -98,789,169 | 1,211,845,855 |
| Non-controlling interests | 92,665,009 | -9,913,533 | 102,578,542 |
| Total owners' equity | 1,205,721,695 | -108,702,702 | 1,314,424,397 |
| TOTAL LIABILITIES AND OWNERS' EQUITY | 2,161,274,652 | -87,672,795 | 2,248,947,447 |

Independent Non-executive Directors' Opinion

The independent non-executive Directors are of the view that the Company has upheld a more stringent implementation of the Accounting Standards for Enterprises, and the correction of these accounting errors is in line with the actual operation and financial position of the Company. The correction made by the Company complies with the requirements of the Accounting Standards for Enterprises and other relevant documents. The revised financial data and financial statements can more objectively and fairly reflect the financial position of the Company. Accordingly, the independent non-executive Directors have agreed to the rectification of accounting errors.

Board's Opinion

The Board is of the view that the consideration and voting procedures for the correction of accounting errors for prior periods comply with the relevant requirements of laws, regulations and the Articles of Association of the Company. The correction renders a more accurate reflection of the financial position and operating results of the Company, and is conducive to improving the quality of the Company's financial information. The Board has unanimously agreed on the rectification of the previous accounting errors.

Supervisory Committee's Opinion

The Supervisory Committee is of the view that the correction of accounting errors for prior periods complies with the relevant laws, regulations and the relevant requirements of the financial and accounting systems, and renders an objective and true reflection of the financial position of the Company. The Supervisory Committee has agreed to correct these accounting errors.

Audit Committee's Opinion

The Audit Committee is of the view that the correction of these accounting errors complies with the requirements of the Accounting Standards for Enterprises and other relevant documents. The correction helps to objectively and fairly reflect the Company's financial position and operating results, and the retrospective adjustment process is legal and compliant. The Audit Committee has agreed to correct and amend these accounting errors.

6 PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

7 REVIEW OF ANNUAL RESULTS

The Audit Committee consists of two independent non-executive Directors, Ms. ZHONG Wentang (the chairlady of the Audit Committee) and Mr. LIU Ning, and one non-executive Director, Mr. LI Changhao. Among them, Ms. ZHONG Wentang has the appropriate professional qualification (a Chinese certified public accountant accredited by the Chinese Institute of Certified Public Accountants).

The Audit Committee has reviewed the Group's annual results for the financial year ended December 31, 2021 and opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

8 COMPLIANCE WITH CG CODE

Save as disclosed below, the Company has complied with all code provisions in the CG Code during the Reporting Period.

On September 9, 2021, due to his personal commitments and other work arrangements, Mr. YANG Yang, the non-executive Director of the Company, tendered his resignation as a non-executive Director and a member of the audit committee of the Company effective from September 9, 2021. Following the resignation of Mr. YANG Yang, the Audit Committee consisted of two independent non-executive Directors, which was temporarily not in compliance with the requirement of including at least three members in the audit committee under Rule 3.21 of the Hong Kong Listing Rules. On 8 October 2021, the Company convened the first extraordinary general meeting in 2021 which considered and approved the appointment of Mr. LI Changhao as a non-executive Director of the Company. On the same date, Mr. LI Changhao was appointed as a member of the Audit Committee with the term of office starting from the date of approval by the general meeting of the Company and ending on the date of expiration of the term of the third session of the Board. Since then, the Company has complied with the requirement of Rule 3.21 of the Hong Kong Listing Rules.

9 COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as a code of conduct of the Company for its Directors' and Supervisors' securities transactions in the Company. Having made specific enquiry of all Directors and Supervisors of the Company, the Directors and the Supervisors of the Company have complied with the requirements set out in the Model Code during the Reporting Period.

10 EVENTS AFTER THE REPORTING PERIOD

Change of Auditor

Reference is made to the announcement of the Company dated January 30, 2022. As PricewaterhouseCoopers Zhong Tian LLP (“PwC”) noted significant cash flows issues during the relevant review procedures performed in accordance with the requirements of the China Securities Regulatory Commission and did not obtain adequate and reasonable explanations and evidence regarding their concerns about the above issues, PwC considered that it was unable to determine the scope of subsequent audit work to be performed and to reasonably estimate the time required to complete the audit work for 2021. Accordingly, PwC has resigned as the auditor of the Company with effect from January 30, 2022.

With the recommendation of the Audit Committee, BDO has been appointed as the auditor of the Company with effect from January 30, 2022 to fill the casual vacancy following the resignation of PwC and to hold office until the conclusion of the next annual general meeting of the Company.

Save as disclosed above, there were no significant subsequent events in the Group occurred since the end of the Reporting Period to the date of this announcement.

11 AUDITORS AND WORKING SCOPE

The consolidated financial statements of the Group for 2021, which have been prepared in accordance with China Accounting Standards for Business Enterprises have been audited by BDO, who has issued a non-standard audit report with unqualified opinions on the consolidated financial statements. For details, please refer to the section headed “12.1 Qualified Opinion and Its Basis” in this announcement.

The figures in respect of the Group’s consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in shareholders’ equity and the related notes thereto for the year ended December 31, 2021 as set out in the announcement have been agreed by BDO, to the amounts set out in the Group’s audited consolidated financial statements for 2021. The work performed by BDO in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO on the announcement.

12 FINANCIAL REPORT

12.1 Qualified Opinion and Its Basis

12.1.1 Qualified Opinion

BDO audited the financial statements of the Company, including the consolidated and parent company’s balance sheet as at 31 December 2021, consolidated and parent company’s income statement, consolidated and parent company’s cash flow statement, consolidated statement of changes in parent company owners’ equity for 2021 and the accompanying notes to the financial statements.

In the opinion of BDO, other than the possible impacts of the matters described in the section headed “Basis for Qualified Opinion”, the accompanying financial statements have been prepared, in all material respects, in accordance with the provisions of the Accounting Standards for Enterprises, which fairly reflected the consolidated and parent company financial position of the Company as of December 31, 2021 and the consolidated and parent company results of operations and cash flows for the year 2021.

12.1.2 Basis for Qualified Opinion

References are made to the announcements of the Company dated January 30, 2022, March 15, 2022, March 31, 2022, April 1, 2022, June 15, 2022 and June 30, 2022 (the “**Announcements**”). Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the Announcements. The Company has established an independent investigation committee in respect of the unresolved issues mentioned in the resignation letter of the former auditor and announced the conclusion of the investigation on October 14, 2022. Among them, the matters on which qualified opinions were concluded by BDO are as follows:

It was revealed from the findings of the report received from the independent investigation firm commissioned by the independent investigation committee of the board of the Company that, the Company received a total of RMB14.4359 million of donations raised by a certain key financial personnel in 2019 and 2020, which was accounted for as account receivables; an employee of the social work department of the Company collected a total of RMB12.1116 million from five decoration suppliers (controlled by the same person) and their related parties from January 2018 to February 2022; and during the period from 2018 to February 2022, a senior management officer of the Company together with a total of 18 persons, 3 of whom had transactions with the company, have accumulated capital inflows of RMB105.4394 million and capital outflows of RMB67.9658 million. Since the Company was unable to provide supporting evidence related to such flows, BDO could not obtain sufficient and appropriate audit evidence regarding the nature and rationality of the above capital flows and related transactions, was unable to judge the possible impact of these matters on the financial statements, nor could it make judgement on whether the management of the Company had made appropriate correction of accounting errors in previous periods for the donation of RMB14.4359 million.

The management of the Company re-evaluated the revenue recognition relating to the poverty-stricken patients and made correction of accounting errors in previous periods in respect of the variable consideration and the relevant impacts by reducing the revenue of 2020 by RMB42.8545 million and the credit impairment losses by RMB22.6423 million; reducing accounts receivable at the end of 2020 by RMB122.4752 million, provision for bad debts of accounts receivable of RMB25.8027 million and retained earnings of RMB76.4303 million at the beginning of 2020. The estimated amount of the variable consideration related to the revenue of 2021 was RMB27.2397 million, for which the management of the Company was unable to provide supporting evidence. Therefore, BDO was unable to obtain sufficient and appropriate audit evidence for the correction on accounting errors in prior periods and the relevant current data in the financial statements of 2021, nor could it judge the possible impact of these matters on the financial statements.

12.1.3 Action Plan in Addressing the Audit Qualifications

Appropriate actions, including positive cooperation with the auditor in its collection of further information and its implementation of necessary auditing procedures, will be taken by the Company to address matters resulting in the abovementioned auditor’s qualified opinion as soon as possible.

12.2 Accounting Policies

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard, and the specific accounting standards and the relevant regulations issued by the Ministry of Finance on February 15, 2006 and in subsequent periods (hereafter collectively referred to as “**the Accounting Standards for Business Enterprises**” or “**CAS**”).

The financial statements are prepared on a going concern basis.

12.2.1 Changes of Significant Accounting Policies

The Notice on Issues Related to the Application of ‘Accounting Treatment of COVID-19 Related Rent Concessions’ (《關於適用<新冠肺炎疫情相關租金減讓會計處理規定>相關問題的通知》) has been implemented. On May 19, 2022, the Ministry of Finance issued the Notice on Issues Related to the Application of ‘Accounting Treatment of COVID-19 Related Rent Concessions’ (Cai Kuai [2022] No. 13), which re-adjusts the application scope of simplified approach for the COVID-19 pandemic-related concessions, and abolishes the previous limitation that the simplified method shall be applied to the “concessions that are only for lease payments due before June 30, 2022”. For rent concessions on lease payments due after June 30, 2022 directly arising from COVID-19 pandemic, lessees and lessors can still continue to elect to adopt the simplified method as provided in the Accounting Treatment of COVID-19 Related Rent Concessions with other applicable conditions remain unchanged.

The Group has adopted the simplified approach for accounting treatment of all eligible lease contracts before the adjustment of the scope of application, and also adopted the simplified approach for accounting treatment of all eligible and similar lease contracts after the adjustment of the scope of application. Retrospective adjustments will be made to the relevant lease contracts that are subject to the accounting changes, but the previous comparative financial statements data will not be adjusted. The relevant rent concessions that have not been accounted for in accordance with the provisions of the notice that occur between January 1, 2022 and the effective date of the notice would be adjusted according to the notice.

12.3 Annual Consolidated Financial Information

The annual consolidated financial information of the Group prepared in accordance with the China Accounting Standard for Business Enterprises is set out as follows:

12.3.1 Annual Consolidated Income Statement

(All amounts in RMB unless otherwise stated)

| Items | Year ended December 31, | |
|---|-------------------------|--------------------|
| | 2021 | 2020 (Restated) |
| I. Total revenue | 1,297,430,370 | 989,012,004 |
| Including: Revenue | 1,297,430,370 | 989,012,004 |
| Interest income | — | — |
| Premium income | — | — |
| Fees and commissions income | — | — |
| II. Total cost of sales | 1,226,514,556 | 915,085,668 |
| Including: Cost of sales | 968,432,456 | 729,172,658 |
| Interest expenses | — | — |
| Fees and commissions expenses | — | — |
| Surrenders | — | — |
| Net claims expenses | — | — |
| Net provisions for insurance contracts reserve | — | — |
| Insurance policy dividend paid | — | — |
| Reinsurance costs | — | — |
| Taxes and surcharges | 5,754,219 | 5,413,866 |
| Selling and distribution expenses | 10,335,393 | 8,072,345 |
| General and administrative expenses | 176,371,889 | 128,376,895 |
| Research and development expenses | 27,962,173 | 20,972,502 |
| Financial expenses | 37,658,426 | 23,077,402 |
| Including: Interest expenses | 36,267,757 | 26,813,000 |
| Interest income | 1,691,367 | 4,677,222 |
| Add: Other income | 13,619,635 | 9,264,825 |
| Investment income (losses represented with “-” signs) | 6,950,723 | 6,968,566 |
| Including: Investment income from associates and joint ventures | -6,565,720 | 7,148,144 |
| Derecognition income of financial assets measured at the amortized cost | — | — |
| Foreign exchange gains (losses represented with “-” signs) | — | — |

| Items | Year ended December 31, | |
|--|-------------------------|--------------------|
| | 2021 | 2020 (Restated) |
| Gains from net exposure hedges (losses represented with “-” signs) | – | – |
| Gains from changes in fair value (losses represented with “-” signs) | 9,417,391 | 6,599,223 |
| Credit impairment losses (losses represented with “-” signs) | -2,140,196 | -483,492 |
| Asset impairment losses (losses represented with “-” signs) | -6,179,290 | -8,011,602 |
| Gains from disposal of assets (losses represented with “-” signs) | <u>-79,404</u> | <u>596,699</u> |
| III. Operating profit (losses represented with “-” signs) | 92,504,673 | 74,923,423 |
| Add: Non-operating income | 11,835,932 | 3,796,777 |
| Less: Non-operating expenses | <u>8,636,584</u> | <u>4,401,945</u> |
| IV. Total profit (total losses represented with “-” signs) | 95,704,021 | 74,318,255 |
| Less: Income tax expenses | <u>54,830,913</u> | <u>30,662,195</u> |
| V. Net profit (net losses represented with “-” signs) | 40,873,108 | 43,656,060 |
| (I) Classified by continuity of operations | | |
| 1. Net profit from continuing operations (net losses represented with “-” signs) | 40,873,108 | 43,656,060 |
| 2. Net profit from discontinued operations (net losses represented with “-” signs) | – | – |
| (II) Classified by ownership of the equity | | |
| 1. Net profit attributable to shareholders of the parent company (net losses represented with “-” signs) | 44,048,873 | 55,770,162 |
| 2. Non-controlling interests (net losses represented with “-” signs) | -3,175,765 | -12,114,102 |

| Items | Year ended December 31, | |
|---|-----------------------------|-----------------------------|
| | 2021 | 2020 |
| | | (Restated) |
| VI. Other comprehensive income, net of tax | | |
| Other comprehensive income attributable to shareholders of the parent company, net of tax | | |
| (I) Other comprehensive income that cannot be reclassified to profit and loss | | |
| 1. Changes arising from remeasurement of defined benefit plan | - | - |
| 2. Other comprehensive income that cannot be reclassified to profit or loss under the equity method | - | - |
| 3. Changes in fair value of other equity instrument investments | - | - |
| 4. Changes in fair value due to the enterprise's own credit risk | - | - |
| (II) Other comprehensive income that can be reclassified to profit and loss | | |
| 1. Other comprehensive income that can be reclassified to profit or loss under the equity method | - | - |
| 2. Changes in fair value of other debt investments | - | - |
| 3. Amount of financial assets reclassified into other comprehensive income | - | - |
| 4. Credit impairment provisions for other debt investments | - | - |
| 5. Reserves for cash flow hedges | - | - |
| 6. Exchange difference on translation of financial statements in foreign currencies | - | - |
| 7. Others | - | - |
| Other comprehensive income attributable to non-controlling interests, net of tax | - | - |
| | <u> </u> | <u> </u> |
| VII. Total comprehensive income | 40,873,108 | 43,656,059 |
| Attributable to shareholders of the parent company | 44,048,873 | 55,770,162 |
| Attributable to non-controlling interests | -3,175,765 | -12,114,102 |
| | <u> </u> | <u> </u> |
| VIII. Earnings per share: | | |
| (I) Basic (RMB per share) | 0.61 | 0.77 |
| (II) Diluted (RMB per share) | 0.59 | 0.75 |
| | <u> </u> | <u> </u> |

12.3.2 Annual Consolidated Balance Sheets

(All amounts in RMB Yuan unless otherwise stated)

| ASSETS | December 31, 2021 | December 31, 2020 (Restated) | January 1, 2020 (Restated) |
|--|----------------------|------------------------------------|----------------------------------|
| Current assets: | | | |
| Cash at bank and on hand | 188,734,846 | 206,499,564 | 176,030,550 |
| Settlement deposits | - | - | - |
| Placements with banks and other financial institutions | - | - | - |
| Financial assets held for trading | 10,000,000.00 | - | 30,000,000 |
| Derivative financial assets | - | - | - |
| Notes receivable | - | - | - |
| Accounts receivable | 311,757,875 | 225,300,247 | 215,682,348 |
| Receivables financing | - | - | - |
| Advances to suppliers | 11,858,427 | 9,909,510 | 4,878,593 |
| Premium receivable | - | - | - |
| Reinsurance accounts receivable | - | - | - |
| Provision for reinsurance contract receivable | - | - | - |
| Other receivables | 29,938,366 | 63,478,702 | 63,539,635 |
| Financial assets purchased for resale | - | - | - |
| Inventories | 56,519,301 | 37,508,472 | 23,568,236 |
| Contract assets | - | - | - |
| Assets held for sale | - | - | - |
| Current portion of non-current assets | - | - | 12,688,704 |
| Other current assets | 806,686 | - | - |
| Total current assets | 609,615,501 | 542,696,495 | 526,388,066 |

| ASSETS | December 31, 2021 | December 31, 2020 (Restated) | January 1, 2020 (Restated) |
|--|------------------------------|------------------------------------|----------------------------------|
| Non-current assets: | | | |
| Granted loans and advances | - | - | - |
| Debt investments | - | - | - |
| Other debt investments | - | - | - |
| Long-term accounts receivable | - | - | - |
| Long-term equity investments | 129,847,779 | 97,816,934 | 89,733,114 |
| Investment in other equity instruments | - | - | - |
| Other non-current financial assets | 65,812,275 | 57,404,918 | 51,281,869 |
| Investment properties | - | 107,804,936 | 110,856,100 |
| Fixed assets | 721,846,772 | 533,743,384 | 552,490,802 |
| Construction in progress | 43,795,718 | 134,941,286 | 72,180,620 |
| Productive biological assets | | | |
| Oil and gas assets | | | |
| Right-of-use assets | 257,412,270 | 232,612,441 | 241,103,593 |
| Intangible assets | 227,991,785 | 162,536,728 | 130,298,127 |
| Development expenditure | | | |
| Goodwill | 135,741,377 | 79,199,853 | 54,346,632 |
| Long-term prepaid expenses | 150,501,038 | 153,550,840 | 151,083,314 |
| Deferred tax assets | 14,336,965 | 40,258,388 | 43,960,456 |
| Other non-current assets | 21,066,387 | 18,708,451 | 1,791,628 |
| Total non-current assets | <u>1,768,352,366</u> | <u>1,618,578,158</u> | <u>1,499,126,255</u> |
| TOTAL ASSETS | <u>2,377,967,867</u> | <u>2,161,274,653</u> | <u>2,025,514,321</u> |

| LIABILITIES AND SHAREHOLDERS' EQUITY | December 31, 2021 | December 31, 2020 (Restated) | January 1, 2020 (Restated) |
|--|----------------------------------|------------------------------------|----------------------------------|
| Current liabilities: | | | |
| Short-term borrowings | 254,050,000.00 | 312,500,000.00 | 250,000,000 |
| Borrowings from central bank | - | - | - |
| Placements from banks and other financial institutions | - | - | - |
| Financial liabilities held for trading | - | - | - |
| Derivative financial liabilities | - | - | - |
| Notes payable | - | 36,080.00 | - |
| Accounts payable | 69,162,002 | 71,955,864 | 75,739,033 |
| Receipts in advance | 16,275,603 | 4,644,278 | 8,775,586 |
| Contract liabilities | 3,241 | 12,965,175 | 4,662,222 |
| Financial assets sold under repurchase agreements | - | - | - |
| Receipt of deposits and deposits from other banks | - | - | - |
| Funds received as agent of stock exchange | - | - | - |
| Funds received as stock underwriter | - | - | - |
| Employee benefits payable | 60,488,184 | 42,785,133 | 36,063,277 |
| Taxes payable | 30,235,329 | 49,046,555 | 33,431,758 |
| Other payables | 66,523,265 | 85,807,142 | 135,707,433 |
| Fees and commissions payable | - | - | - |
| Reinsurance accounts payable | - | - | - |
| Liabilities held for sale | - | - | - |
| Current portion of non-current liabilities | 48,240,752 | 35,540,617 | 55,157,974 |
| Other current liabilities | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total current liabilities | <u><u>544,978,376</u></u> | <u><u>615,280,844</u></u> | <u><u>599,537,283</u></u> |

| LIABILITIES AND SHAREHOLDERS' EQUITY | December 31, 2021 | December 31, 2020 (Restated) | January 1, 2020 (Restated) |
|--|------------------------------|------------------------------------|----------------------------------|
| Non-current liabilities: | | | |
| Provision for insurance contracts | - | - | - |
| Long-term borrowings | 280,950,000.00 | 110,992,970.00 | 20,000,000 |
| Bonds payable | - | - | - |
| Including: Preferred shares | - | - | - |
| Perpetual bonds | - | - | - |
| Lease liabilities | 231,733,761 | 194,601,230 | 213,766,351 |
| Long-term payables | - | - | - |
| Long-term employee benefits payables | - | - | - |
| Provisions | - | - | 2,000,000 |
| Deferred income | 9,341,683 | 9,645,475 | 9,949,267 |
| Deferred tax liabilities | 39,875,790 | 25,032,438 | 21,124,118 |
| Other non-current liabilities | - | - | - |
| Total non-current liabilities | <u>561,901,234</u> | <u>340,272,113</u> | <u>266,839,736</u> |
| Total liabilities | <u>1,106,879,610</u> | <u>955,552,957</u> | <u>866,377,019</u> |
| Shareholders' equity: | | | |
| Share capital | 74,600,300 | 74,600,300 | 75,500,000 |
| Other equity instruments | - | - | - |
| Including: Preferred shares | - | - | - |
| Perpetual bonds | - | - | - |
| Capital surplus | 838,165,396 | 819,509,066 | 830,477,647 |
| Less: Treasury stock | - | 23,311,144 | 21,721,143 |
| Other comprehensive income | - | - | - |
| Special reserves | - | - | - |
| Surplus reserve | 38,399,577 | 36,593,229 | 33,189,321 |
| Provision for general risks | - | - | - |
| Retained earnings | 247,907,761 | 205,665,236 | 153,298,982 |
| Total equity attributable to shareholders of the parent company | 1,199,073,033 | 1,113,056,687 | 1,070,744,807 |
| Non-controlling interests | 72,015,224 | 92,665,009 | 88,392,495 |
| Total shareholders' equity | <u>1,271,088,257</u> | <u>1,205,721,696</u> | <u>1,159,137,302</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>2,377,967,867</u> | <u>2,161,274,653</u> | <u>2,025,514,321</u> |

12.3.3 Annual Consolidated Statements of Cash Flow
(All amounts in RMB Yuan unless otherwise stated)

| Items | Year ended December 31, | |
|--|-------------------------|----------------------|
| | 2021 | 2020 |
| I. Cash flows from operating activities | | |
| Cash received from sales of goods or rendering of services | 1,211,114,151 | 1,009,899,304 |
| Net increase in customer deposits and interbank deposits | — | — |
| Net increase in borrowings from central bank | — | — |
| Net increase in placements from other financial institutions | — | — |
| Cash received from original insurance contract premium | — | — |
| Net cash received from reinsurance business | — | — |
| Net increase in deposits and investments from policyholders | — | — |
| Cash received from interests, fees and commissions | — | — |
| Net increase in placements from banks and other financial institutions | — | — |
| Net increase in cash from repurchase business | — | — |
| Net cash received from securities brokerage services | — | — |
| Refund of taxes and levies | — | — |
| Cash received relating to other operating activities | 96,220,745 | 25,615,444 |
| Sub-total of cash inflows of operating activities | 1,307,334,896 | 1,035,514,748 |
| Cash paid for goods and services | 553,860,986 | 361,019,459 |
| Net increase in customer loans and advances | — | — |
| Net increase in deposits with central bank and other banks | — | — |
| Cash paid for compensation under original insurance contract | — | — |
| Net increase in placements with banks and other financial institutions | — | — |
| Cash paid for interests, fees and commissions | — | — |
| Cash paid for policyholders' dividends | — | — |
| Cash paid to and on behalf of employees | 425,383,922 | 333,194,249 |
| Payments of taxes and surcharges | 44,017,853 | 21,285,308 |
| Cash paid relating to other operating activities | 90,175,636 | 120,359,740 |
| Sub-total of cash outflows of operating activities | 1,113,438,397 | 835,858,756 |
| Net cash flows from operating activities | 193,896,499 | 199,655,992 |

| Items | Year ended December 31, | |
|---|-------------------------|---------------------|
| | 2021 | 2020 |
| II. Cash flows from investing activities | | |
| Cash received from disposal of investments | 52,119,176 | 49,000,000 |
| Cash received from returns on investments | 7,777,189 | 96,371 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 8,755,311 | 3,870,905 |
| Net cash received from disposal of subsidiaries and other business units | | |
| Cash received relating to other investing activities | – | 14,520,000.00 |
| Sub-total of cash inflows of investing activities | 68,651,676 | 67,487,276 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | 178,536,614 | 187,956,193 |
| Cash paid to acquire investments | 48,600,000 | 34,545,000 |
| Net increase in pledged loans | – | – |
| Net cash paid to acquire subsidiaries and other business units | 80,564,033 | 24,835,719 |
| Cash paid relating to other investing activities | – | 6,470,000.00 |
| Sub-total of cash outflows of investing activities | 307,700,647 | 253,806,912 |
| Net cash flows from investing activities | -239,048,971 | -186,319,636 |
| III. Cash flows from financing activities | | |
| Cash received from capital contributions | 2,900,000 | 23,361,500 |
| Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries | 2,900,000 | 21,771,500 |
| Cash received from borrowings | 550,250,000 | 406,492,970 |
| Cash received relating to other financing activities | – | – |
| Sub-total of cash inflows of financing activities | 553,150,000 | 429,854,470 |
| Cash repayments of borrowings | 428,342,970 | 290,000,000 |
| Cash payments for distribution of dividends, profit or interest expenses | 30,297,107 | 17,109,612 |
| Including: Cash payments for distribution of dividends and profit by subsidiaries to non-controlling shareholders | – | – |
| Cash paid relating to other financing activities | 60,676,566 | 100,692,478 |
| Sub-total of cash outflows of financing activities | 519,316,643 | 407,802,090 |
| Net cash flows from financing activities | 33,833,357 | 22,052,380 |

| Items | Year ended December 31, | |
|---|--------------------------------|--------------------|
| | 2021 | 2020 |
| IV. Effect of foreign exchange rate changes on cash and cash equivalents | -38,704 | -248,021 |
| V. Net increase in cash and cash equivalents | -11,357,819 | 35,140,715 |
| Add: Cash and cash equivalents at the beginning of the period | 200,092,665 | 164,951,950 |
| VI. Cash and cash equivalents at the end of the period | 188,734,846 | 200,092,665 |

12.3.4 Consolidated Statement of Changes in Shareholders' Equity

(All amounts in RMB Yuan unless otherwise stated)

| Items | Other equity instruments | | | | Amount for the current period Equity attributable to owners of the parent company | | | | | | | Subtotal | Non-controlling interests | Total owners' equity |
|--|--------------------------|------------------|-----------------|--------|--|----------------------|----------------------------|-----------------|-----------------|----------------------------|-------------------|---------------|---------------------------|----------------------|
| | Share capital | Preferred shares | Perpetual bonds | Others | Capital reserve | Less: Treasury stock | Other comprehensive income | Special reserve | Surplus reserve | Provision for general risk | Retained earnings | | | |
| I. Balance as at the end of the previous year | 74,600,300 | | | | 819,509,066 | 23,311,144 | | | 36,593,229 | | 205,665,236 | 1,113,056,687 | 92,665,009 | 1,205,721,696 |
| Plus: Changes in accounting policies | | | | | | | | | | | | | | |
| Correction of accounting errors in prior periods | | | | | | | | | | | | | | |
| Business combinations under common control | | | | | | | | | | | | | | |
| Others | | | | | | | | | | | | | | |
| II. Balance as at the beginning of the current year | 74,600,300 | | | | 819,509,066 | 23,311,144 | | | 36,593,229 | | 205,665,236 | 1,113,056,687 | 92,665,009 | 1,205,721,696 |
| III. Increases/decreases in the current period ("-" for decreases) | | | | | 18,656,330 | -23,311,144 | | | 1,806,348 | | 42,242,525 | 86,016,346 | -20,649,785 | 65,366,561 |
| (I) Total comprehensive income | | | | | | | | | | | 44,048,873 | 44,048,873 | -3,175,765 | 40,873,108 |
| (II) Owner contribution and capital decrease | | | | | 20,182,750 | | | | | | | 20,182,750 | -17,474,020 | 2,708,730 |
| 1. Common stock contributed by owners | | | | | 2,445,056 | | | | | | | 2,445,056 | -17,474,020 | -15,028,964 |
| 2. Capital invested by holders of other equity instruments | | | | | | | | | | | | | | |
| 3. Amounts of share-based payments recognized in owners' equity | | | | | 17,737,694 | | | | | | | 17,737,694 | | 17,737,694 |
| 4. Others | | | | | | | | | | | | | | |

Amount for the current period
Equity attributable to owners of the parent company

| Items | Other equity instruments | | | | Capital reserve | Less: | | | Surplus reserve | Provision for general risk | Retained earnings | Subtotal | Non-controlling interests | Total owners' equity |
|---|--------------------------|------------------|-----------------|--------|-----------------|----------------|----------------------------|-----------------|-----------------|----------------------------|-------------------|----------|---------------------------|----------------------|
| | Share capital | Preferred shares | Perpetual bonds | Others | | Treasury stock | Other comprehensive income | Special reserve | | | | | | |
| (III) Distribution of profits | | | | | | | | | 1,806,348 | | -1,806,348 | | | |
| 1. Withdrawal of surplus reserves | | | | | | | | | 1,806,348 | | -1,806,348 | | | |
| 2. Withdrawal of provision for general risk | | | | | | | | | | | | | | |
| 3. Profit distributed to owners (or shareholders) | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | | |
| (IV) Internal carry-forward of owners' equity | | | | | | | | | | | | | | |
| 1. Conversion of capital reserves into paid-in capital (or share capital) | | | | | | | | | | | | | | |
| 2. Conversion of surplus reserves into paid-in capital (or share capital) | | | | | | | | | | | | | | |
| 3. Surplus reserves offsetting losses | | | | | | | | | | | | | | |
| 4. Carry-forward of changes in the defined benefit plan for retained earnings | | | | | | | | | | | | | | |
| 5. Carry-forward of other comprehensive income for retained earnings | | | | | | | | | | | | | | |
| 6. Others | | | | | | | | | | | | | | |

| Items | Other equity instruments | | | | Amount for the current period Equity attributable to owners of the parent company | | | | | | | | Subtotal | Non- controlling interests | Total owners' equity |
|--|--------------------------|---------------------|--------------------|--------|--|----------------------------|----------------------------------|--------------------|--------------------|----------------------------------|----------------------|---------------|------------|----------------------------------|----------------------------|
| | Share capital | Preferred shares | Perpetual bonds | Others | Capital reserve | Less: Treasury stock | Other comprehensive income | Special reserve | Surplus reserve | Provision for general risk | Retained earnings | | | | |
| (V) Special reserves | | | | | | | | | | | | | | | |
| 1. Withdrawal for the period | | | | | | | | | | | | | | | |
| 2. Usage for the period | | | | | | | | | | | | | | | |
| (VI) Others | | | | | -1,526,420 | -23,311,144 | | | | | | 21,784,723 | | | 21,784,723 |
| IV. Balance as at the end of the period | 74,600,300.00 | | | | 838,165,396 | | | | 38,399,577 | | 247,907,761 | 1,199,073,033 | 72,015,224 | | 1,271,088,257 |

| Items | Other equity instruments | | | | Amount for the previous period Equity attributable to owners of the parent company | | | | | | | | Non-controlling interests | Total owners' equity |
|--|--------------------------|------------------|-----------------|--------|---|----------------------|----------------------------|-----------------|-----------------|----------------------------|-------------------|---------------|---------------------------|----------------------|
| | Share capital | Preferred shares | Perpetual bonds | Others | Capital reserve | Less: Treasury stock | Other comprehensive income | Special reserve | Surplus reserve | Provision for general risk | Retained earnings | Subtotal | | |
| I. Balance as at the end of the previous year | 75,500,000 | | | | 830,477,648 | 21,721,144 | | | 33,189,321 | | 153,298,982 | 1,070,744,807 | 88,392,495 | 1,159,137,302 |
| Plus: Changes in accounting policies | | | | | | | | | | | | | | |
| Correction of accounting errors in prior periods | | | | | | | | | | | | | | |
| Business combinations under common control | | | | | | | | | | | | | | |
| Others | | | | | | | | | | | | | | |
| II. Balance as at the beginning of the current year | 75,500,000 | | | | 830,477,648 | 21,721,144 | | | 33,189,321.00 | | 153,298,982 | 1,070,744,807 | 88,392,495 | 1,159,137,302 |
| III. Increases/decreases in the current period ("-" for decreases) | -899,700 | | | | -10,968,582 | 1,590,000 | | | 3,403,908 | | 52,366,254 | 42,311,880 | 4,272,514 | 46,584,394 |
| (I) Total comprehensive income | | | | | | | | | | | 55,770,162 | 55,770,162 | -12,114,102 | 43,656,060 |
| (II) Owner contribution and capital decrease | -899,700 | | | | -8,436,388 | 1,590,000 | | | | | | -10,926,088 | 16,386,616 | 5,460,528 |
| 1. Common stock contributed by owners | -899,700 | | | | -12,034,556 | 1,590,000 | | | | | | -14,524,256 | 16,386,616 | 1,862,360 |
| 2. Capital invested by holders of other equity instruments | | | | | | | | | | | | | | |
| 3. Amounts of share-based payments recognized in owners' equity | | | | | 3,598,168 | | | | | | | 3,598,168 | | 3,598,168 |
| 4. Others | | | | | | | | | | | | | | |

Amount for the previous period
Equity attributable to owners of the parent company

| Items | Other equity instruments | | | | Capital reserve | Less: | | | Special reserve | Surplus reserve | Provision for general risk | Retained earnings | Subtotal | Non-controlling interests | Total owners' equity |
|---|--------------------------|------------------|-----------------|--------|-----------------|----------------|----------------------|-------|-----------------|-----------------|----------------------------|-------------------|----------|---------------------------|----------------------|
| | Share capital | Preferred shares | Perpetual bonds | Others | | Treasury stock | comprehensive income | Other | | | | | | | |
| (III) Distribution of profits | | | | | | | | | 3,403,908 | | -3,403,908 | | | | |
| 1. Withdrawal of surplus reserves | | | | | | | | | 3,403,908 | | -3,403,908 | | | | |
| 2. Withdrawal of provision for general risk | | | | | | | | | | | | | | | |
| 3. Profit distributed to owners (or shareholders) | | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | | | |
| (IV) Internal carry-forward of owners' equity | | | | | | | | | | | | | | | |
| 1. Conversion of capital reserves into paid-in capital (or share capital) | | | | | | | | | | | | | | | |
| 2. Conversion of surplus reserves into paid-in capital (or share capital) | | | | | | | | | | | | | | | |
| 3. Surplus reserves offsetting losses | | | | | | | | | | | | | | | |
| 4. Carry-forward of changes in the defined benefit plan for retained earnings | | | | | | | | | | | | | | | |
| 5. Carry-forward of other comprehensive income for retained earnings | | | | | | | | | | | | | | | |
| 6. Others | | | | | | | | | | | | | | | |

| Items | Share capital | Preferred shares | Other equity instruments | | Amount for the previous period Equity attributable to owners of the parent company | | | | | | | Subtotal | Non-controlling interests | Total owners' equity | |
|---|---------------|------------------|--------------------------|--------|---|----------------------|----------------------------|-----------------|-----------------|----------------------------|-------------------|---------------|---------------------------|----------------------|------------|
| | | | Perpetual bonds | Others | Capital reserve | Less: Treasury stock | Other comprehensive income | Special reserve | Surplus reserve | Provision for general risk | Retained earnings | | | | |
| (V) Special reserves | | | | | | | | | | | | | | | |
| 1. Withdrawal for the period | | | | | | | | | | | | | | | |
| 2. Usage for the period | | | | | | | | | | | | | | | |
| (VI) Others | | | | | -2,532,194 | | | | | | | | -2,532,194 | | -2,532,194 |
| IV. Balance as at the end of the period | 74,600,300.00 | | | | 819,509,066 | 23,311,144 | | | 36,593,229 | | 205,665,236 | 1,113,056,687 | 92,665,009 | 1,205,721,696 | |

12.4 Notes to the Consolidated Annual Financial Information prepared in accordance with the China Accounting Standard for Business Enterprises

12.4.1 Accounts receivable

The aging analysis of accounts receivables based on the billing date is as follows:

| | December 31, 2021 RMB | December 31, 2020 RMB (Restated) |
|-------------------------------|-----------------------------|---|
| Within 1 year | 303,910,574 | 218,165,453 |
| 1 – 2 years | 9,812,859 | 10,236,264 |
| 2 – 3 years | 4,259,870 | 5,003,468 |
| 3 – 4 years | 3,140,407 | – |
| Subtotal | <u>321,123,710</u> | <u>233,405,185</u> |
| Less: Provision for bad debts | 9,365,835 | 8,104,938 |
| Total | <u><u>311,757,875</u></u> | <u><u>225,300,247</u></u> |

12.4.2 Accounts payable

The aging analysis of accounts payable based on the billing date is as follows:

| | December 31, 2021 RMB | December 31, 2020 RMB (Restated) |
|-------------------------|--------------------------------------|---|
| Within one year | 65,938,475 | 71,048,099 |
| One to two years | 2,767,906 | 482,323 |
| Two year to three years | 168,510 | 160,862 |
| Above three years | 287,111 | 264,580 |
| Total | <u>69,162,002</u> | <u>71,955,864</u> |

12.4.3 Revenue and cost of sales

Analysis of revenue and cost of sales

| | Year ended December 31, 2021 | | Year ended December 31, 2020 (Restated) | |
|------------------|---------------------------------|--------------------|--|--------------------|
| | Revenue | Cost | Revenue | Cost |
| Main businesses | 1,202,774,378 | 897,111,636 | 935,611,626 | 701,510,604 |
| Other businesses | 94,655,992 | 71,320,820 | 53,400,378 | 27,662,054 |
| Total | <u>1,297,430,370</u> | <u>968,432,456</u> | <u>989,012,004</u> | <u>729,172,658</u> |

Breakdown of revenue:

| | Year ended December 31, 2021 Revenue | Year ended December 31, 2020 Revenue (Restated) |
|---|---|---|
| Revenue from main businesses | 1,202,774,378 | 935,611,626 |
| Including: Pharmaceutical sales | 267,588,282 | 222,586,930 |
| Treatments and general healthcare services | 935,186,096 | 713,024,696 |
| Revenue from other businesses | 94,655,992 | 53,400,378 |
| Including: Wholesale and retail revenue of pharmaceutical and equipment | 51,613,429 | 12,031,746 |
| Management service | 2,970,297 | 16,761,130 |
| Rental income | 7,515,329 | 11,384,473 |
| Real estate sales | 16,043,548 | 3,870,905 |
| Others | 16,513,389 | 9,352,124 |
| Total | <u>1,297,430,370</u> | <u>989,012,004</u> |

12.4.4 Expenses by nature

The cost of sale, selling and distribution expenses, general and administrative expenses and research and development expenses in the income statement are listed as follows by nature:

| | Year ended December 31, 2021 | 2020 (Restated) |
|--|---|---------------------------|
| Employee and welfare benefits | 435,967,572 | 339,081,062 |
| Pharmaceutical and medical consumables used | 353,105,992 | 260,283,959 |
| Costs of real estate sold | 15,204,373 | 3,339,117 |
| Depreciation of fixed assets | 45,173,131 | 41,037,075 |
| Depreciation of right-of-use assets | 45,435,381 | 33,045,368 |
| Amortisation of intangible assets | 15,010,630 | 14,101,748 |
| Amortisation of long-term prepaid expenses | 38,371,918 | 35,549,405 |
| Housing lease and property management expenses | 15,472,885 | 4,382,432 |
| Canteen expenditure | 57,050,466 | 44,513,962 |
| Utilities | 24,096,156 | 19,138,805 |
| Outsourcing expenses | 21,047,712 | 14,146,526 |
| Testing fee | 25,603,836 | 26,463,399 |
| Consulting expense | 13,820,362 | 8,036,574 |
| Auditors' remuneration | 1,222,900 | 824,500 |
| Promotion expenses | 2,990,339 | 2,914,695 |
| Travelling expenses | 4,416,545 | 4,170,744 |
| Office expenses | 9,312,808 | 5,256,718 |
| Share-based payment | 15,932,752 | 5,947,767 |
| Others | 43,866,152 | 24,360,543 |
| Total | <u>1,183,101,910</u> | <u>886,594,399</u> |

12.4.5 Credit impairment losses

| | Year ended December 31, | |
|--|-------------------------|--------------------|
| | 2021 | 2020 (Restated) |
| Losses on bad debts of accounts receivable | 3,005,695 | 697,691 |
| Losses on bad debts of other receivables | -865,499 | -214,199 |
| Total | <u>2,140,196</u> | <u>483,492</u> |

12.4.6 Earning per Share

Basic earning per Share

| | Year ended December 31, | |
|---|-------------------------|--------------------|
| | 2021 | 2020 (Restated) |
| Consolidated net profit attributable to the ordinary Shareholders of the parent company | 44,048,873 | 55,770,162 |
| Weighted average number of outstanding ordinary Shares of the Company | 72,140,300 | 72,452,438 |
| Basic earning per Share | 0.61 | 0.77 |
| Including: Basic earning per Share from continuing operations | 0.61 | 0.77 |
| Basic earning per Share from discontinued operations | — | — |

Diluted earning per Share

Diluted earning per Share is calculated by the consolidated net profit attributable to the ordinary Shareholders of the parent company (diluted) divided by the weighted average number of outstanding ordinary Shares of the Company(diluted):

| | Year ended December 31, | |
|---|-------------------------|--------------------|
| | 2021 | 2020 (Restated) |
| Consolidated net profit attributable to the ordinary Shareholders of the parent company (diluted) | 44,048,873 | 55,770,162 |
| Weighted average number of outstanding ordinary Shares of the Company(diluted) | 74,600,300 | 72,452,438.00 |
| Diluted earning per Share | 0.59 | 0.77 |
| Including: Diluted earning per Share from continuing operations | 0.59 | 0.77 |
| Diluted earning per Share from discontinued operations | — | — |

12.4.7 Income tax expenses

Table of income tax expenses

| | Year ended December 31, | |
|------------------------------|-------------------------|--------------------|
| | 2021 | 2020 (Restated) |
| Current income tax expenses | 26,919,820 | 30,415,239 |
| Deferred income tax expenses | 27,911,093 | 246,956 |
| Total | <u>54,830,913</u> | <u>30,662,195</u> |

Reconciliation between total profit and income tax expenses

| | Year ended December 31, | |
|---|-------------------------|--------------------|
| | 2021 | 2020 (Restated) |
| Total profit | <u>95,704,021</u> | <u>74,318,255</u> |
| Income tax expenses calculated at the statutory tax rates | 21,762,976 | 18,579,564 |
| Impact of different tax rates applicable to subsidiaries | 1,508,267 | -681,010 |
| Adjustment to impact of income tax of past periods | -2,591,474 | -2,633,999 |
| Impact of non-taxable income | -283,550 | 1,337,036 |
| Impact of non-deductible costs, expenses and losses | 4,012,268 | 4,923,721 |
| Impact of deductible losses of the deferred income tax assets unrecognized in the previous period | -3,047,922 | -742,801 |
| Impact of deductible temporary differences or deductible losses for which deferred income tax assets are not recognized in the current period | 40,749,555 | 16,223,194 |
| Additional deduction of research and development expenses | -3,263,746 | -2,340,614 |
| Impact of business combination involving enterprise not under common control | -4,286,812 | -4,123,440 |
| Others | 271,351 | 120,544 |
| Income tax expenses | <u>54,830,913</u> | <u>30,662,195</u> |

12.4.8 Dividend

On October 26, 2022, the Board did not recommend the payment of a final dividend to the Shareholders for the year ended December 31, 2021. The proposal not to declare dividend is subject to approval by the Shareholders at AGM.

On March 26, 2021, the Board did not recommend the payment of a final dividend to the Shareholders for the year ended December 31, 2020. The proposal not to declare dividend was approved by the Shareholder at the annual general meeting for the year 2020 of the Company on June 18, 2021.

13 CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Hong Kong Stock Exchange has been suspended with effect from 9:00 a.m. on April 1, 2022. Trading in the shares of the Company will remain suspended until further notice.

Shareholders and potential investors of the Company are reminded to rationally deal with any information not officially released by the Company, and Shareholders and potential investors of the Company should exercise caution when dealing in the shares of the Company.

14 DEFINITIONS

| | |
|--|--|
| “AGM” | the annual general meeting of the Company for the year 2021 to be convened in due course |
| “Audit Committee” | the audit committee of the Board |
| “Beijing Yining Hospital” | Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), a company established in the PRC with limited liability on August 17, 2015, one of the Company’s indirect non-wholly owned subsidiaries |
| “Board” | the board of directors of the Company |
| “Cangnan Kangning Hospital” | Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company’s wholly-owned subsidiaries |
| “Cangnan Yining Nursing Center” | Cangnan Yining Nursing Center Co., Ltd. (蒼南怡寧護理中心有限公司), a company established in PRC with limited liability on March 9, 2021, one of the Company’s indirect wholly-owned subsidiaries |
| “Changchun Kanglin Psychological Hospital” | Changchun Kanglin Psychological Hospital Co., Ltd.(長春康林心理醫院有限公司), a company established in the PRC with limited liability on February 16, 2016, one of the Company’s indirect non-wholly owned subsidiaries |
| “Chun’an Kangning Hospital” | Chun’an Kangning Huangfeng Hospital Co., Ltd. (淳安康寧黃鋒醫院有限公司), a company established in the PRC with limited liability on April 16, 2020, one of the Company’s indirect non-wholly owned subsidiaries |
| “Company” or “Wenzhou Kangning Hospital” | 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 Stock Exchange of Hong Kong Limited (Stock Code: 2120) |

| | |
|----------------------------|---|
| “CG Code” | the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules |
| “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 are unlisted shares which are currently not listed or traded on any stock exchange |
| “Geriatric 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 Company’s indirect wholly-owned subsidiaries, is principally engaged in providing medical services for the geriatric, including geriatric psychiatric and psychological treatment |
| “Group” or “we” or “our” | the Company and its subsidiaries |
| “Guanxian Yining Hospital” | Guanxian Yining Hospital Co., Ltd. (冠縣怡寧醫院有限公司), a company established in PRC with limited liability on March 1, 2017, one of the Company’s indirect non-wholly-owned subsidiaries |
| “H Share(s)” | overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of The Stock Exchange of Hong Kong Limited |
| “Hangzhou Cining Hospital” | Hangzhou Cining Hospital Co., Ltd. (杭州慈寧醫院有限公司), a company established in the PRC with limited liability on November 18, 2017, one of the Company’s indirect wholly owned subsidiaries |
| “HK\$” or “HKD” | 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 |
| “Jerinte Company” | Zhejiang Jerinte Health Technology Co., Ltd. (浙江傑翎健康科技有限公司) (formerly know as Hangzhou Yelimi Information Technology Co., Ltd. (杭州耶利米信息科技有限公司)), a company established in the PRC with limited liability on December 27, 2018, one of the Company’s indirect wholly-owned subsidiaries |

| | |
|--------------------------------------|---|
| “Jinpu Fund” | Chongqing Jinpu Medical & Health Service Industry Equity Investment Fund Partnership (Limited Liabilities Partnership), a limited partnership established in the PRC on March 22, 2016 with the Company, as a limited partner, holding 3.5461% of Jinpu Fund |
| “Linhai Cining Hospital” | Linhai Cining Hospital Co., Ltd. (臨海慈寧醫院有限公司), a company established in PRC with limited liability on December 11, 2020, one of the Company’s indirect wholly-owned subsidiaries |
| “Linhai Kangning Hospital” | Linhai Kangning Hospital Co., Ltd. (臨海康寧醫院有限公司), a company established in the PRC with limited liability on February 2, 2015, one of the Company’s non-wholly-owned subsidiaries |
| “Luqiao Cining Hospital” | Taizhou Luqiao Cining Hospital Co., Ltd. (台州市路橋慈寧醫院有限公司, previously known as Taizhou Luqiao Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司)), a company established in the PRC with limited liability on December 12, 2016, one of the Company’s indirect non-wholly owned subsidiaries |
| “Nanjing Yining Hospital” | Nanjing Yining Hospital Co., Ltd. (南京怡寧醫院有限公司), a company established in the PRC with limited liability on June 22, 2018, one of the Company’s indirect non-wholly owned subsidiaries |
| “Pingyang Changgeng Yining Hospital” | Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on January 14, 2021, one of the Company’s wholly-owned subsidiaries |
| “Pingyang Kangning Hospital” | Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company’s indirect wholly-owned subsidiaries |
| “Pujiang Yining Hospital” | Pujiang Yining Huangfeng Hospital Co., Ltd. (浦江怡寧黃峰醫院有限公司), a company established in the PRC with limited liability on September 30, 2018, one of the Company’s indirect non-wholly owned subsidiaries |
| “PRC” or “China” | the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan |

| | |
|--------------------------------|---|
| “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 Company’s wholly-owned subsidiaries |
| “Quzhou Yining Hospital” | Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015, one of the Company’s indirect non-wholly owned subsidiaries |
| “RMB” | the lawful currency of the PRC |
| “Share(s)” | share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s) |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “subsidiary” or “subsidiaries” | has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong) |
| “Taizhou Kangning Hospital” | Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company’s indirect non-wholly owned subsidiaries |
| “the Reporting Period” | the year ended December 31, 2021 |
| “Wenling Nanfang Hospital” | Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd. (溫嶺南方精神疾病專科醫院有限公司), a company established in the PRC with limited liability on June 20, 2018, one of the Company’s indirect non-wholly owned subsidiaries |
| “Wenzhou Cining Hospital” | Wenzhou Cining Hospital Co., Ltd. (溫州慈寧醫院有限公司), a company established in the PRC with limited liability on January 25, 2006, one of the Company’s wholly-owned subsidiaries |
| “Wenzhou Guoda” | Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a company established in the PRC with limited liability on February 9, 2002. On June 24, 2021, the Company entered into an equity transfer agreement with Mr. Guan Weili, the actual controller, pursuant to which Mr. Guan Weili acquired 75% equity interest in Wenzhou Guoda held by the Company. Please refer to the announcement of the Company date June 24, 2022 for details. |

| | |
|---|---|
| “Wenzhou Ouhai Yining Elderly Hospital” | Wenzhou Ouhai Yining Elderly Hospital Co., Ltd. (溫州甌海怡寧老年醫院有限公司), a company established in China with limited liability on March 8, 2021, one of the wholly-owned subsidiaries of the Company |
| “Yining Psychology Internet Hospital” | Yining Psychology Internet Hospital (Wenzhou) Co., Ltd. (怡寧心理互聯網醫院(溫州)有限公司), a company established in the PRC with limited liability on March 10, 2020, one of the Company’s indirect wholly-owned subsidiaries |
| “Yongjia Kangning Hospital” | Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company’s wholly-owned subsidiaries |
| “Yueqing Kangning Hospital” | Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院有限公司), a company established in the PRC with limited liability on September 3, 2013, one of the Company’s wholly-owned subsidiaries |
| “%” | percentage ratio |

By Order of the Board
Wenzhou Kangning Hospital Co., Ltd.
Guan Weili
Chairman

Zhejiang, the PRC
October 26, 2022

As of the date of this announcement, the Company’s executive Directors are Mr. GUAN Weili and Ms. WANG Lianyue; the non-executive Directors are Mr. LI Changhao and Mr. QIN Hao; and the independent non-executive Directors are Mr. ZHAO Xudong, Ms. ZHONG Wentang and Mr. LIU Ning.