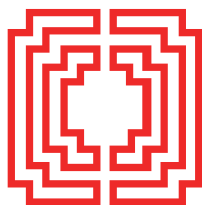


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溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.

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

Stock code: 2120

**FULFILMENT OF RESUMPTION GUIDANCE
AND
RESUMPTION OF TRADING**

This announcement is made by Wenzhou Kangning Hospital Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and Part XIVA of the Securities and Futures Ordinance.

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, June 30, 2022, September 30, 2022, October 14, 2022, December 30, 2022, March 31, 2023 and April 14, 2023 (the “**Announcements**”), in relation to, among other things, the suspension of trading of the Company and the resumption guidance for the Company. Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the Announcements.

BACKGROUND OF SUSPENSION OF TRADING

As disclosed in the Announcements, trading in the Company’s shares has been suspended from 9:00 a.m. on April 1, 2022 pending the publication of annual results announcement for the year ended December 31, 2021 (the “**2021 Annual Results**”) and the Company’s fulfilment of the resumption conditions. The delay in the publication of the 2021 Annual Results was due to (i) the ongoing independent investigation (“**Independent Investigation**”) overseen by the Independent Investigation Committee of the Company 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, needed more time for the follow-up work in completing the audit procedures in relation to the 2021 Annual Results.

FULFILMENT OF RESUMPTION GUIDANCE

As disclosed in the announcement dated June 15, 2022 of the Company, at the request of the Stock Exchange, the resumption of trading in the shares of the Company is subject to the fulfilment of the following guidance (the “**Resumption Guidance**”):

- (a) conduct an appropriate independent investigation into the issues raised by PwC, announce the findings and take appropriate remedial actions;

- (b) demonstrate that there is no reasonable regulatory concern about the management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which may pose a risk to investors and damage market confidence;
- (c) conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet its obligations under the Listing Rules;
- (d) publish all outstanding financial results required under the Listing Rules and address any audit modifications;
- (e) demonstrate the Company's compliance with Rule 13.24 of the Listing Rules; and
- (f) announce all material information for the Company's shareholders and investors to appraise its position.

As at the date of this announcement, the Company has fulfilled the Resumption Guidance on the following basis:

- (i) **Conduct an appropriate independent investigation into the issues raised by PwC, announce the findings and take appropriate remedial actions**

As disclosed in the announcement of the Company dated January 30, 2022, PwC, the former auditor of the Company, mentioned the following outstanding issues in its resignation letter:

- (1) Findings on verification of cash flows in personal bank accounts of Ms. WANG Hongyue ("**Ms. Wang**") (the "**Alleged Area I**"). PwC noted that four parties, including a former individual minority shareholder of a subsidiary of the Company, an individual investor in an existing minority shareholder of certain subsidiaries of the Company, and two renovation project suppliers of the Company, transferred funds to a certain employee of Social Work Department of the Company (the "**Employee**") and Ms. Wang, who then further transferred the funds to the personal bank accounts of other finance personnel of the Company. In most cases, upon withdrawing the funds received in cash, these finance personnel deposited the funds into the bank accounts of the Company by way of multiple deposits, which were then accounted for by the Company as repayments of medical fees due from patients. In 2019 and 2020, funds transferred in the manner described above amounted to approximately RMB14,430,000. While the Company has conducted some preliminary analysis and provided PwC with explanations and certain information regarding the said fund flows, PwC was still unsure as to the commercial reasonableness of such cash flows and requested the Company to provide further explanation and materials;

- (2) Findings on verification of cash flows in the personal bank account of the Employee (the “**Alleged Area II**”). PwC noted that the Employee received a large amount of funds transferred from five renovation suppliers, all of which were controlled by the same individual (the “**Actual Controller**”), in an aggregate amount of approximately RMB9,790,000 in 2020 and from January to June 2021. The Employee had explained to PwC that she was entrusted by the project suppliers to procure certain materials required for renovation by the Company and the funds received were reimbursements for the procurement, and she had provided some relevant materials to PwC. PwC then requested the Employee and the management of the Company to provide further materials and to arrange relevant interviews in order to establish the commercial reasonableness of the cash flows; and
- (3) Findings on verification of cash flows in the personal bank account of Ms. Wang (the “**Alleged Area III**”). PwC noted that a renovation project supplier, a former individual minority shareholder of a subsidiary of the Company, and an individual investor in an existing minority shareholder of certain subsidiaries of the Company had a substantial amount of fund transfers with Ms. Wang, and the net inflow of such transfers amounted to approximately RMB9,500,000 from January 1, 2018 to June 30, 2021. Ms. Wang had explained that these fund transfers were loans of personal nature. PwC then requested Ms. Wang and the management of the Company to provide further materials.

In order to resolve the outstanding issues mentioned above, the Board established the Independent Investigation Committee, and on March 14, 2022, the Independent Investigation Committee appointed an independent third party accounting firm as the investigation firm (the “**Investigation Firm**”) to perform an independent investigation into the Alleged Areas raised by PwC.

The Investigation Firm completed the relevant works from March 14, 2022 to September 23, 2022, and issued the independent investigation report (“**Investigation Report**”) on October 17, 2022. After the issuance of the Investigation Report, BDO expressed two audit qualifications in the 2021 Annual Results. BDO’s first audit qualification concerns the insufficiency of evidence from the findings of the Independent Investigation to assess the possible impact of the Alleged Areas on the Company’s financial statements, in particular with regards to (a) the nature and rationality of the donations totalling RMB14.43 million raised by the former Chief Financial Officer of the Company, Ms. Wang in Alleged Area I; (b) the amount of benefits obtained by the Employee from the profit sharing arrangement with the renovation suppliers of the Company in Alleged Area II; and (c) whether the cash flows of Ms. Wang in Alleged Area III were related to the Company’s business. BDO’s second audit qualification concerns the insufficiency of evidence, including the relevant data in the years leading up to 2021, to support the Company’s prior year adjustments made to correct errors in revenue, accounts receivable and bad debt provision, among others. Therefore, at the request of the Company, the Investigation Firm performed a supplementary independent investigation into the Alleged Areas (the “**Supplementary Independent Investigation**”) to collect further relevant facts and supporting evidence in order to resolve BDO’s two audit qualifications. On April 11, 2023, the Investigation Firm completed the Supplementary Independent Investigation and submitted the final report of the Supplementary Independent Investigation (the “**Supplementary Report**”) to the Independent Investigation Committee.

Key findings from the Investigation Report and the Supplementary Report were as follows:

For Alleged Area I, the Independent Investigation confirmed the fund flows were used to settle accounts receivable in the names of various patients, which totalled RMB14.43 million. The funds came from two renovation suppliers of the Company and two individuals who had direct or indirect interests in the Company's subsidiaries (the "**Minority Shareholders**"), which were described by Ms. Wang as donations solicited by her on behalf of the Company for certain underprivileged patients. It was a usual and historical practice of the Company to make arrangements with certain charities to receive relevant donations, which were applied to settle the long-age medical fees of patients. The PRC Government encourages non-governmental institutions and individuals in society to actively provide medical assistance to those patients by donating funds and materials, and has provided fiscal and tax incentives and established an information sharing platform to facilitate the same (see Notice of the General Office of the State Council on Forwarding the Opinions of the Ministry of Civil Affairs and Other Authorities on Further Improving the Medical Assistance System and Comprehensively Rolling out the Medical Assistance for Serious and Critical Diseases (Fa [2015] No. 30)). The legitimacy of the above donation arrangement is further confirmed by Article 15 of the Measures of Wenzhou City for Medical Assistance, which recognises donations from the society as a main source of donated funds to provide financial assistance offered to patients in need. As such, the above donation arrangement is permitted by PRC laws.

However, according to Ms. Wang, this created an issue when, commencing 2018/2019, the relevant charities only allowed donations to settle outstanding medical fees that were overdue for less than one and a half years, and this had an impact on the Company as it could no longer use donations from charities to settle long aging accounts receivable.

Ms. Wang stated that as a result, and solely on her own initiative and without informing the Board, she solicited donations totalling RMB14.43 million in 2019 and 2020 (the "**1443 donations**") from various parties, and arranged for finance personnel of the Company to use their personal bank accounts to process and inject these funds into the Company to settle accounts receivable in the names of various patients.

Based on the interviews conducted by the Investigation Firm and all the donors for the 1443 donations, all donors confirmed that the donations to the Company are with the intention to help the impoverished patients without expecting any favours from the Company in return. The outcome of the interviews with the donors support a reasonable basis for a view to be taken that, although the fund flows of the donations appeared to be convoluted, they reflected a series of personal decisions made by Ms. Wang who orchestrated the 1443 donations on her own, and did not diminish the fact that all donors had the intention to donate and help the impoverished patients at the hospitals.

For Alleged Area II, based on the works performed, from January 2018 to February 2022, the Employee and her spouse received RMB14.3 million in total from the Actual Controller and its related parties. The Employee stated that she received these funds because she purchased materials on behalf of the Actual Controller and its related parties for certain renovation projects of the Company. She added that she was able to procure the materials at low prices on credit as she was a native of Wenzhou city and had established connections with various suppliers from running a business with a friend that sold bathroom products. The Employee also stated that in addition to purchasing materials on behalf of the Actual Controller and its related parties, the fund flows reflected an arrangement in which the Actual Controller shared the profits of some of the Company's renovation projects with the Employee's spouse,

who helped the Actual Controller in managing those renovation projects and procuring some of the materials and labour services required for the projects. The Employee's spouse knew the Actual Controller from having worked in the Company's Construction Department. According to the Employee, her spouse worked with the Actual Controller on projects, mainly including the renovation and reconstruction of hospital buildings, nursing centre outpatient clinic, canteen, indoor rehabilitation centre, the ward, the office and the outdoor, from which the Actual Controller received approximately RMB18.28 million in total from the Company in respect of all projects involving profit sharing arrangements. After deducting project costs described by the Employee to be paid by the Actual Controller and the Employee respectively, the profit for the Employee and/or her spouse from the ten Company projects was approximately RMB0.8 million.

The Investigation Firm further noted that the Employee did not disclose the profit-sharing arrangement with the Actual Controller to the Company; and that neither the Employee, her spouse nor the Actual Controller retained records of the project costs and therefore were unable to provide further supporting documents to support the estimates that were used to calculate the profit that the Employee or her spouse obtained from the profit-sharing arrangement. Despite the profit sharing arrangement, project cost verifications performed by independent third parties engaged by the Company opined that the amounts paid by the Company in respect of the projects involving the profit sharing arrangement were of fair value, which support the view that the profit-sharing arrangement neither affected the amounts paid by the Company to the renovation suppliers in question, nor resulted in the Company suffering any loss.

For Alleged Area III, from January 2018 to February 2022, Ms. Wang had personal loan arrangements with 18 individuals, including three individuals (the "**Individuals of Interest**") whose fund flows were discussed in PwC's letter of resignation, namely:

a former shareholder of a subsidiary hospital whose interest was acquired by the Company in May 2019 (the "**Former Shareholder**");

an individual shareholder of a fund that invested in certain subsidiaries of the Company (the "**Indirect Investor**"); and

an individual who provided construction and renovation services to the Company (the "**Renovation Supplier**").

According to the Investigation Report, Ms. Wang described all inflows that she received from the Individuals of Interest as loans and her outflows to them as repayments. However, the Investigation Firm identified instances where her transactions with the Former Shareholder and the Indirect Investor were not loan-related, instead, they were pass-through transactions orchestrated by Ms. Wang.

In relation to the Former Shareholder, Ms. Wang stated that some of the fund flows reflected a shareholding arrangement where she personally funded all of the Former Shareholder's capital injections and shareholder loans to a certain subsidiary of the Company. In effect, the Former Shareholder held shares in the said subsidiary on her behalf, but she did not disclose this information to anyone at the Company. Ms. Wang confirmed that when the Company acquired the Former Shareholder's interests in the said subsidiary in May 2019, she made a personal gain of RMB1,272,000. This acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules, and also fell within the de minimis transaction pursuant to Rule 14A.76 of the Listing Rules. The Company has published a voluntary announcement on 14 May 2019 for the purpose of keeping the shareholders of the Company and potential investors informed of the latest business development of the Group.

In relation to the Indirect Investor, the Investigation Firm also found that, around the same time of some of the transfers from the Indirect Investor to Ms. Wang, the Company made payments to a fund in which the Indirect Investor was an investor, for acquiring shares in a Company subsidiary.

The Independent Investigation Committee obtained fair value assessments performed by a valuer on the subsidiaries mentioned above, which opined that the considerations paid by the Company for these subsidiaries were of fair value, and unrelated to the loan arrangements between Ms. Wang and the Indirect Investor.

In relation to the Renovation Supplier, the Investigation Firm's sample testing showed that several payments totalling RMB7 million corresponded to a renovation contract involving the Renovation Supplier and the Company also commissioned additional work done amounting to RMB8 million which appeared to lack supporting documents. The Independent Investigation Committee engaged a valuer to perform a cost valuation on the entire renovation project, which concluded that the overall price paid by the Company for the renovation project was fair and consistent with market practices.

Other than the Individuals of Interest, the Investigation Firm identified significant cash inflows and outflows between Ms. Wang and 15 individuals, and enquired into these outflows through interviews with Ms. Wang as well as the individuals, documents review and verification. According to the information provided by Ms. Wang, in total, she obtained RMB83.3503 million from the 15 individuals and the nature of the fund flows were personal loans and repayments between her and these individuals. She added that informal borrowing between colleagues, friends and families was very common in Wenzhou, and was often conducted without any written agreement.

Based on interviews with individuals who made personal loans to Ms. Wang, the individuals corroborated with Ms. Wang's representation that their fund flows with Ms. Wang were personal loans in nature and not related to the Company.

For details of the findings of the Investigation Report and the Supplementary Report, please refer to the announcements of the Company dated October 14, 2022 and April 14, 2023.

In view of the abovementioned findings, the Company proposed the following remedial measures in response to its operational and internal control issues:

- (a) carrying out necessary changes to the Board and the management of the Company;
- (b) obtaining legal advice on the merits of commencing judicial proceedings for civil recovery against Ms. Wang regarding the personal interests she obtained under Alleged Area III;
- (c) strengthening the use of external expert support in respect of corporate governance and proper internal controls;
- (d) reassessing accounting treatments related to the arrears of the impoverished patients identified in the Independent Investigation as well as the recoverability of the historical arrears, making necessary corrections of prior accounting errors, if any;

- (e) relevant treatment of the Indirect Investor, the Renovation Supplier and the Actual Controller involved in Alleged Area I and Alleged Area III; and
- (f) strengthening the internal control system and compliance supervision of the Company.

For further details of the remedial measures, please refer to the announcement of the Company dated October 14, 2022.

As at the date of this announcement, the respective status of the Company's implementation of the remedial measures above is as follows:

(a) carrying out necessary changes to the Board and the management of the Company

Given that Ms. Wang has resigned from the position as an executive director and chief financial officer of the Company, in order to further strengthen the financial management and internal control of the Company, as at the date of this announcement, the Company has nominated Ms. Jin Ling ("**Ms. Jin**") and Mr. Chan Sai Keung ("**Mr. Chan**") as independent non-executive directors of the Company, and nominated Mr. Wang Jian ("**Mr. Wang**") as an executive director of the Company. For further details in this regard, please refer to the announcements of the Company dated March 10, 2023 and May 4, 2023.

The Company has appointed a new Chief Finance Officer to oversee the Finance Department from January 10, 2022. For details, please refer to the announcement of the Company dated January 9, 2022. In May 2023, the Company has recruited an appropriate qualified professional manager with relevant professional experience to act as the head of the Audit and Supervision Department of the Company, who will comprehensively take charge of the internal control work of the Company. In addition, the Company is seeking a principal responsible person of the Social Work Department who understands the business of the Company.

(b) obtaining legal advice on the merits of commencing judicial proceedings for civil recovery against Ms. Wang regarding the personal interests she obtained under Alleged Area III

As mentioned above, the personal gains received by Ms. Wang from the relevant share transfer transactions under Alleged Area III (the "**Disgorged Gains**") did not affect the consideration paid by the Company and did not cause any actual economic loss to the Company. However, since Ms. Wang, as a senior management of the Company, had a duty of loyalty to the Company during that period, her act violated the provisions of the Company Law of the People's Republic of China and the relevant rules and regulations of the Company. The Company has consulted its PRC legal adviser (the "**PRC Counsel**") for professional advice in relation to this incident. Considering that: i) Ms. Wang has actively cooperated with the Independent Investigation and provided sufficient information to confirm the amount of the Disgorged Gains, and is willing to sign a settlement agreement according to the negotiation result with the Company and return all Disgorged Gains, she has actually assumed the legal responsibility. The dispute between the Company and Ms. Wang has been properly and fairly resolved; and ii) civil litigation process is relatively cumbersome, requiring the Company to invest additional time and financial costs, and the outcome of the litigation is uncertain,

the PRC Counsel advised the Company to negotiate with Ms. Wang and request her to return the Disgorged Gains in accordance with the Company Law of the People's Republic of China and if the negotiation fails, the Company is recommended to take further civil litigation to resolve the issue. Therefore, based on the advice of the PRC Counsel, the Company has reached a settlement with Ms. Wang, and Ms. Wang will return to the Company in full the Disgorged Gains in accordance with the terms of the settlement agreement.

(c) *strengthening the use of external expert support*

The Company has appointed the Internal Control Adviser as professional consultant to conduct comprehensive internal control system diagnosis on the Company's corporate-level COSO framework, business processes and compliance processes, and make corresponding rectification recommendations for internal control issues and concerns related to the findings from the Independent Investigation, and provide continuous review and guidance. Currently, the Company has established adequate internal controls and procedures to discharge its obligations under the Listing Rules (see section (f) below for details).

(d) *reassessing accounting treatments related to the arrears of the impoverished patients identified in the Independent Investigation as well as the recoverability of the historical arrears, making necessary corrections of prior accounting errors, if any*

In order to more accurately account for the impact on income recognition caused by the inability of impoverished patients to fully settle their medical expenses, the Company has revised the income recognition policy and formulated the Regulations on the Income Accounting Measures for Poor Patients. Pursuant to the said measures, the Company will calculate the percentage of recoverable medical expenses of impoverished patients in the overall medical expenses (i.e. recoverable rate) on a quarterly basis at the beginning of each quarter, and the average of the historical recoverable rate data of the latest four quarters will be used as the best estimate of the recoverable rate of impoverished patients in the current quarter, in order to identify the variable consideration in the income from impoverished patients in the current quarter. According to the revised estimation method of variable consideration, the Company has reassessed the accounting treatment and made necessary corrections of prior period accounting errors. Please refer to the Company's 2021 annual report, 2022 interim report and 2022 annual report for details.

(e) *relevant treatment of the Indirect Investor, the Renovation Supplier and the Actual Controller involved in Alleged Area I and Alleged Area III*

With a view to maintain robust internal controls, the Company has voluntarily treated the Indirect Investor involved in Alleged Area I and Alleged Area III as a connected person of the Company, and the transactions between the Company and the Indirect Investor will be subject to relevant approval procedures of connected transactions and the requirements under Chapter 14A of the Listing Rules. For the avoidance of doubt, it is entirely the Company's voluntary act to treat the Indirect Investor as a connected person and there is no breach of Chapter 14A of the Listing Rules. Further, the Company has terminated its business relationships with the Renovation Supplier and other renovation companies controlled by the Actual Controller involved in Alleged Area II.

(f) strengthening the internal control system and compliance supervision of the Company

According to the Internal Control Review Report dated April 11, 2023 issued by the Internal Control Adviser, the Company has taken corrective actions in response to all internal review findings set out in the Internal Control Review Report and has fully addressed the deficiencies by implementing remedial measures.

The Company has strengthened its internal control system and compliance supervision, particularly in relation to the management of the Company's funds, income and expense, receipt and application of donations, accounting and financial reporting, procurement, engineering construction, suppliers, material contracts, record-keeping and conflicts of interest, and setting up new checks and balances and internal audit procedures to ensure due supervision and approval of such management processes, as well as sufficient oversight of the Company's senior management.

The Company has also implemented and enhanced the Administrative Measures for Accepting Donations from the Public and Making Donations and Sponsorships to External Parties to regulate the making and acceptance of donations to and from the public.

For further details in this regard, please refer to the announcement of the Company dated April 14, 2023.

View of the Independent Investigation Committee

The Independent Investigation Committee has completed the review of the contents of the Investigation Report and the Supplementary Report, and is of the view that (i) the Investigation Report and the Supplementary Report have been thoroughly conducted by professionals and has been completed to the extent presently and reasonably possible; (ii) the Investigation Firm has taken appropriate and necessary actions to fully investigate the issues involved in the Alleged Areas; and (iii) the factual conclusions to the Independent Investigation and the Supplementary Independent Investigation are reasonable and acceptable. The Independent Investigation Committee considers that the findings of the Investigation Report and the Supplementary Report can provide sufficient relevant supporting evidence for BDO to assess the financial impact of the Alleged Areas on the Company, and assist the Company to comply with the requirements of the Stock Exchange in this connection.

(ii) Demonstrate that there is no reasonable regulatory concern about the management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which may pose a risk to investors and damage market confidence

As concluded by the Investigation Firm in its Investigation Report, all the concerned transactions under the Alleged Areas were conducted during Ms. Wang's tenure as the Company's former Chief Financial Officer and the Employee as the former manager of the Company's Social Work Department. The findings in the Investigation Report consistently point to those transactions having been orchestrated and carried out exclusively at Ms. Wang or the Employee's respective instructions, without the actual knowledge or involvement of any other directors or members of the Company's senior management.

Further, according to the findings in the Investigation Report, the conduct of Ms. Wang and the Employee relevant to the Alleged Areas could not have been reasonably identified by the Company or the Board at the time. Therefore, the Company's present directors and other senior management did not have any knowledge of, or involvement in, the conduct orchestrated and carried out by Ms. Wang or the Employee, nor could the relevant conduct have been reasonably discovered by the Company's present directors and the other members of the senior management.

In light of the relevant matters, both Ms. Wang and the Employee have ceased to hold any position within the Group, and they therefore no longer have any influence over the daily operations and management of the Company, whilst the finance personnel who carried out the instructions of Ms. Wang in Alleged Areas I and III, together with the rest of the Finance Department, have received training on compliance with the enhanced financial management measures of the Group.

Although Ms. Wang currently owns 5,785,350 domestic shares, representing approximately 10.46% of the total domestic shares and approximately 7.76% of total issued share capital of the Company and 309,000 H shares, representing approximately 1.60% of the total H shares and approximately 0.41% of total issued share capital of the Company, the number of shares she holds is relatively small (representing approximately 8.17% of the total issued share capital of the Company in aggregate). Therefore, Ms. Wang is unable to exercise any voting rights that are sufficient to have any material impact on the voting results of the shareholders' general meetings and shareholders' class meetings, nor any influence over the Company's management and operations.

The Board has appointed Mr. Jin Hui ("**Mr. Jin**") as the new Chief Financial Officer of the Company. Mr. Jin served as the project leader and senior partner of Zhejiang Huaming Certified Public Accountants Company Limited (浙江華明會計師事務所有限公司) from June 2013 to January 2022, primarily responsible for the audit of various corporations, enterprises or institutions, including the annual report and economic responsibility audit of Wenzhou municipal hospitals; the annual reports and audit projects of a large state-owned enterprise; the audit of real estate, banking and other industries and government departments; and the review and supervision of budget and final account settlement. Mr. Jin obtained the qualification of certified public accountant issued by Zhejiang Provincial Department of Finance in March 2013. In addition, the other current members of senior management of the Company are also professionals with relevant backgrounds and experiences in management, medicine, information technology, and corporate governance. Therefore, the senior management of the Company would bring to the Board extensive experience in corporate governance, industry expertise, business operations and management, to enhance the Board's supervision and control of the Group's operations.

The meeting of the Board was held on May 4, 2023 to consider the resolutions nominating Ms. Jin and Mr. Chan as independent non-executive directors of the Company and nominating Mr. Wang as an executive director of the Company, and submit to the annual general meeting of the Company for the year 2022 for approval.

Ms. Jin successively served as the chief accountant of Zhejiang Provincial People's Hospital and the Children's Hospital of Zhejiang University School of Medicine, and the chief accountant of the Second Affiliated Hospital of Zhejiang University School of Medicine. She has served as the chief accountant of provincial hospitals for more than 20 years and has extensive experience in hospital financial management. The joining of Ms. Jin is beneficial to the Company's continuous improvement in areas such as financial management and corporate governance.

Mr. Chan is a partner of Liao, Ho & Chan, the Founding Vice President of the Hong Kong Professionals and Senior Executives Association, a consultant lawyer of Or & Partners Solicitors and member of the Board of Trustees of Oral Roberts University. Mr. Chan successively served as a member of the Chief Executive Election Committee of Hong Kong and a member of the Chinese People's Political Consultative Conference of Shenzhen, China. Mr. Chan possesses professional knowledge in laws and he will facilitate the scientific and objective decision-making of the Board in terms of corporate governance structure and the protection of the rights and interests of public shareholders, provide opinions and suggestions on scientific decision-making and risk prevention, and propel the continuous improvement in corporate governance of the Company.

Mr. Wang graduated from Guanghai School of Management of Peking University and possesses a certified public accountant certificate as well as a legal professional qualification certificate. He has good compliance management capabilities, which will help in optimizing the internal control management system of the Company, further improving the Company's operations and management as well as risk prevention capabilities, and promoting the Company's sustainable development.

In addition, the independent non-executive directors of the Company comprise of directors with professional qualifications and have accounting or financial management expertise, and all of them have more than five years of legal, economic or other work experience necessary for the due discharge of their duties as independent non-executive directors. Other than acting as independent non-executive directors of the Company, none of them holds any position within the Group nor have any business or financial interest in the Group. Therefore, none of them has any relationship with the Group that may affect their independent and objective judgment as independent non-executive directors of the Company, and their participation provides independent perspectives to the Board.

In light of the above, the Independent Investigation Committee is of the view that current directors and senior management of the Company have attained the required level of management integrity and competence in managing the Company's business and operations, and that each member of the current Board and senior management would be able to individually and collectively fulfil their duties of skill, care and diligence as required under the Listing Rules. Accordingly, the Independent Investigation Committee reasonably believes that there is no reasonable regulatory concern about the management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which may pose a risk to investors and damage market confidence.

(iii) Conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet its obligations under the Listing Rules

The Company has engaged the Internal Control Adviser to holistically review the internal controls and procedures of the Company, make suggestions for improvement, and conduct a follow-up review on the Company's implementation of its enhanced internal control measures. On April 11, 2023, the Company received the final version of the Internal Control Review Report dated April 11, 2023 issued by the Internal Control Adviser. The key internal control issues identified during the Internal Control Review mainly include the conflict of interest reporting mechanism, succession planning, the anti-money laundering mechanism, establishing written policies and procedures for the aforementioned processes, the process for bad debt provisions as part of revenue and accounts receivable management, and the process for accepting and making charitable donations as part of bank and cash management.

The Company has addressed and rectified the above issues. The Company has enhanced its Conflict of Interest Declaration System by clearly defining situations which may amount to conflict of interests, and introduced a time limit and procedures for seeking consultation and reporting the conflict of interest. The Company has established a Succession Plan for Key Management, which sets out the process and other details of its succession planning. The Company has established an Anti-Money Laundering Management System to remind employees of the importance of anti-fraud, anti-bribery and anti-money laundering, and to enhance their awareness of crimes and handling procedures. Written policies and procedures for the abovementioned processes have been established, reviewed and approved by the management. A standardised process for making provision for and writing off bad debts has been introduced in the Current Accounts Management System. The Company has implemented and enhanced the Administrative Measures for Accepting Donations from the Public and Making Donations and Sponsorships to External Parties to regulate the making and acceptance of donations to and from the public. A summary of the key rectifications made is as follows:

Key Internal Control Issues	Rectifications
Entity-Level Review by COSO Framework	
<p data-bbox="204 251 785 321">Control Environment – Conflict of Interest Reporting Mechanism</p> <p data-bbox="204 363 785 846">Although the Employee Handbook set out clear prohibitions against the receipt of kickbacks, agency fees and any other payments and favors similar in nature from external parties, the Group did not have in place a reporting mechanism for conflict of interest, including the requirement for employees to declare any potential conflict of interests. As a result, potential conflicts might not be detected, investigated and followed-up in a timely manner, which might affect the overall interests of the Group.</p>	<p data-bbox="817 251 1471 697">The Group has enhanced its Conflict of Interest Declaration System by clearly defining situations which may amount to conflict of interests, and introducing a time limit and procedures for seeking consultation and reporting the conflict of interest. In particular, directors and other members of senior management are required to fill out the Conflict of Interest Declaration Form to declare their interests in December every year, and report to management any conflict of interest as soon as it arises so that it is handled timely.</p> <p data-bbox="817 740 1471 1366">In addition, according to the enhanced Conflict of Interest Declaration System, if deliberate concealment of conflict of interests is discovered, and the interests of the Group is affected as a consequence, the relevant employee and his or her supervisor would have to bear corresponding responsibilities. The incident will be reviewed, verified and assessed by a special committee or the Audit and Supervision Department before the course of action is decided. If the deliberate concealment of conflict of interests is verified, it would be dealt with accordingly depending on the severity of the case, and if it is serious, it would be reported to the department in charge for it to pursue administrative or legal actions against the employee.</p>

Key Internal Control Issues	Rectifications
Entity-Level Review by COSO Framework	
<p>Control Environment – Succession Plan</p> <p>There was no succession plan for key management functions to ensure the continuous pursuit of the Group’s objectives in the event of departure of any member of the Group’s key management. In the absence of such formalized plan, the Group might not be able to fill any vacancy in its key management in time, which might affect the Group’s operational efficiency.</p>	<p>The Group has established a Succession Plan for Key Management, which sets out the process and other details of its succession planning. Successors for key positions in the Group would be nominated, examined and approved by the management.</p>
<p>Risk Assessments – Anti-Money Laundering Mechanism</p> <p>Although the Group had set up a supervisory unit for the detection and investigation of any potential violation of laws within the Group and provided clear guidance on anti-corruption and fraud to its employees through regular trainings, it had not codified the relevant guidelines and monitoring procedures, which might expose the Group to the heightened risk of legal proceedings and affect the Group’s reputation as a result.</p>	<p>The Group has established an Anti-Money Laundering Management System to remind employees of the importance of anti-fraud, anti-bribery and anti-money laundering, and to enhance their awareness of crimes and handling procedures. The system has been examined and approved by the management.</p>
<p>Control Activities – Policies and Procedures</p> <p>Policies and procedures had been established for all the key aspects of the Group’s business operations. However, procedural guidelines were not in place to govern certain operational processes, including financial reporting procedures, management of revenue and accounts receivable in relation to hospital services and wholesale of pharmaceutical products, human resources and payroll process. The lack of written procedures for certain business functions might cause confusion amongst employees when they were performing the relevant duties, and hamper productivity as a result.</p>	<p>Written policies and procedures for the abovementioned processes have been established, reviewed and approved by the management. Periodic review of the policies and procedures will be performed to ensure that the written policies and procedures coincide with the Group’s current practice. Meanwhile, the approved policies have been circulated to all the relevant departments, and all employees are required to strictly adhere to the same.</p>

Key Internal Control Issues	Rectifications
Activity-level review	
<p>Revenue and Accounts Receivable Management – Bad Debt Provision</p> <p>The Group did not retain the audit traces of the Calculation of Accounts Receivable and Bad Debt Provision. It might be difficult for the management to determine whether the bad debt provisions were accurate and/or had been properly approved, which might affect the accuracy of the financial statements.</p>	<p>A standardised process for making provision for and writing off bad debts has been introduced in the Current Accounts Management System. For instance, the Group is now required by way of policy to make bad debt provision for 60% of accounts receivable aged two to three years and for 100% of accounts receivable aged three years or more (prioritising the write-off of longer-term arrears), upon approval of the Chief Financial Officer of the Group and the chief officer of the hospitals.</p>
<p>Bank and Cash Management – Charitable Donation Management</p> <p>The finance department was not required to maintain a register for recording the details of donations received by the Group, and each subsidiary was not required to set up a bank account designated for the receipt of charitable donations. It might be hard for the management to track the application of donations received, or monitor whether the applications were consistent with the restrictions set by charitable organizations, which might put the reputation of the Group at risk.</p>	<p>The Group has implemented and enhanced the Administrative Measures for Accepting Donations from the Public and Making Donations and Sponsorships to External Parties to regulate the making and acceptance of donations to and from the public. The enhanced measures include, amongst others:</p> <ul style="list-style-type: none"> • Accepted donations are required to be remitted to a bank account designated for donations set up by each subsidiary by way of bank transfer, which are then managed by the Finance Department, accounted for separately, and recorded in a register dedicated to keeping track for the receipt of donations. • When a donation proposal is received, the relevant department or person in charge is required to fill in a donation approval form, and submit it to the General Manager’s office for approval. An assessment team will then evaluate the proposal, and submit it to the senior management for review and countersign.

Key Internal Control Issues	Rectifications
Activity-level review	
	<ul style="list-style-type: none"> <li data-bbox="810 251 1471 846">• The assessment team established by the Group for the evaluation of donation proposals is comprised of members from the General Manager’s office, the Finance and Asset Management Department, the Audit and Supervision Department, and the department which received the donation proposal. A third-party agency will also be engaged to participate in the evaluation if necessary. The team would perform a comprehensive evaluation of the donation proposal, including the donor’s background, its operating and relationship with the hospital (if any), before issuing an opinion on whether to accept the donation or not. <li data-bbox="810 889 1471 1144">• If the Group decides to accept the donation and that the relevant donation has been approved by the management, it is required to enter into a written agreement with the donor on a voluntary and equal basis, which should be affixed with the seal of the Group.

For details of the key findings of the Internal Control Review, please refer to the announcement of the Company dated April 14, 2023.

View of the Audit Committee

Having considered the results of the Internal Control Review and the report issued by the Internal Control Adviser, the Audit Committee is of the view that the remedial actions taken by the Company resolved material issues in the Company’s internal control system and procedures as identified by the Internal Control Adviser, and enhanced the financial reporting procedures and internal control system as a whole, thus enhancing the Company’s ability to fulfil its obligations under the Listing Rules and protect the interests of the Company and its shareholders.

Based on the Internal Control Review Report and the views of the Audit Committee set out above, the Company had fully implemented the enhancement recommendations made in the Internal Control Review Report, and the Internal Control Review Report has not identified any further internal control weaknesses or deficiencies in the Company’s internal control system after a follow-up assessment, including without limitation to the internal controls relevant to all three Alleged Areas. Thus, the Company reasonably believes that there should be no reasonable regulatory concern about the adequacy of the Company’s internal controls and procedures to meet its obligations under the Listing Rules.

(iv) Publish all outstanding financial results required under the Listing Rules and address any audit modifications

The Company has published:

- (a) the 2021 Annual Results on October 27, 2022;
- (b) the 2021 annual report on November 15, 2022;
- (c) the interim results announcement for the six months ended June 30, 2022 (the “**2022 Interim Results**”) on January 10, 2023;
- (d) the 2022 interim report on January 16, 2023;
- (e) the audited 2022 annual results announcement for the year ended December 31, 2022 (the “**2022 Annual Results**”) on April 14, 2023; and
- (f) the 2022 annual report on May 10, 2023.

Therefore, the Company has published all outstanding financial results required under the Listing Rules as at the date of this announcement.

As disclosed in the 2021 Annual Results, BDO’s first audit qualification was concerned with the lack of sufficient evidence on the following matters identified from the findings of the Independent Investigation, particularly as to their possible impact on the Company’s financial statements:

- (a) the nature and rationality of the 1443 donations raised by Ms. Wang;
- (b) the amount of benefits obtained by the Employee from the profit sharing plans with the Renovation Suppliers of the Company; and
- (c) whether the cash flows of Ms. Wang were related to the Company’s business.

BDO’s second audit qualification was concerned with the lack of sufficient evidence on the Company’s correction of accounting errors in prior periods and the relevant current data in the financial statements of 2021, and their possible impact on the Company’s financial statements.

To address BDO’s audit qualifications, the Company discussed and agreed on a proposed action plan with BDO. As at the date of this announcement, the Company has completed all of the steps within the said action plan. The Company outlines its progress achieved with respect to each of the work streams as follows:

- (a) interviews have been conducted with full participation from BDO, and the Investigation Firm has issued the Supplementary Report, which has been reviewed and accepted by the Independent Investigation Committee on April 12, 2023;

- (b) fair value assessments of all projects which involved the vendors implicated in Alleged Area II (except for those that were no longer reflected in the Company's balance sheet), and of the two subsidiary acquisitions in Alleged Area III, have been performed by independent third parties, and the assessment results have been obtained;
- (c) a legal opinion has been obtained on how the transactions related to the 1443 donations should be remedied for Alleged Area I, and on whether the Company is legally entitled to seek restitution against the Employee for Alleged Area II, and the Company is undertaking steps to address these issues based on the advice obtained;
- (d) details of payments made by the Company to the Renovation Supplier have been reconciled with the details listed in the construction cost verification report issued by the independent third party engaged by the Company for Alleged Area III;
- (e) all the relevant documents and historical, current and forecast data have been provided to BDO as requested;
- (f) as described above, the Company has strengthened its policies and procedures to address all the internal control related issues identified from the internal control assessments by the Internal Control Adviser, including those relating to the three Alleged Areas; and
- (g) BDO have obtained signed written confirmations from the Individuals of Interest who had made loans to Ms. Wang in Alleged Area III to confirm the nature of the relevant fund flows to be personal loans that were unrelated to the Company.

As such, the Company has fully completed the proposed action plan and addressed the relevant concerns of BDO in relation to their audit qualifications, and BDO has expressed their unqualified opinions on the 2022 Annual Results of the Company.

(v) Demonstrate the Company's compliance with Rule 13.24

As at the date of this announcement, the business operations of the Company are continuing as usual in all material respects.

(a) *Sufficient Level of Operations*

The Group is a large private healthcare group that provides comprehensive specialty healthcare services to patients with mental and psychological illnesses. Currently, the Group is primarily engaged in the provision of specialty medical services for schizophrenia, anxiety, depression, bipolar disorder, Alzheimer's disease and other types of psychiatric illnesses, as well as certain elderly healthcare services.

The operating activities and principal activities of the Group remain stable without any significant changes. The Group mainly provides specialized diagnosis and treatment services for patients with mental and psychological illnesses through the establishment of psychiatric specialty hospitals. Wenzhou Kangning Hospital has set up a psychiatry department, rehabilitation department and other comprehensive departments, and divides the psychiatry department into general psychiatry, elderly psychiatry, drug dependence, mental disorder, clinical psychology (sleep medical centre), children psychology and other sub-departments according to clinical needs, so as to provide patients with professional, standardized and individualized diagnosis and treatment services; the Group's other self-owned hospitals have set up general psychiatric and rehabilitation departments to provide patients with various psychiatric healthcare services.

The Group has a core management team and key technical personnel with extensive experience in the healthcare industry and sound management and operation capabilities, which can effectively support the development of the Group's healthcare business and the expansion of the healthcare institution network. Among them, the management has an average of more than 24 years of experience in the field and more than 10 years of experience in operation and management of psychiatric medical institutions. Many members of the management are senior psychiatric doctors with extensive experience in hospital and clinical management.

Based on the needs of business development and strategy, the Group will continue to strengthen the investment and management of fixed assets and improve the comprehensive medical service capabilities and medical technology level of its self-owned hospitals, so as to promote the long-term sustainable and high-quality development of the Group. The Group's fixed assets mainly comprise buildings and structures, medical equipment, motor vehicles, electronic equipment and other equipment. As at the date of December 31, 2022, the value of the Group's fixed assets was RMB695.02 million.

At present, the domestic psychiatric healthcare resources are far from satisfying the increasing medical needs of the public (especially the increasing concern of the public on personal health issues since the outbreak of the COVID-19 pandemic), coupled with the industry barriers of psychiatric specialty medical services (such as management experience, market access, special sites, etc.), the Group has a long-term and stable customer (patient) base and maintains a long-term dominant position in the market. As disclosed in the "Principal Operating Data and Indicators for the Three Months Ended March 31, 2023 and the First Quarter 2023" published by the Group on April 4, 2023, the number of inpatient bed-days reached 769,749 days as at March 31, 2023, representing a year-on-year increase of 7.1% as compared with 718,866 days in the same period of 2022. The number of outpatient visits as at March 31, 2023 reached 124,671, representing an increase of 11.0% as compared with 112,280 in the same period of 2022.

As disclosed in the 2022 annual report of the Company, the Company has comprehensive transactions and customers in its business operations and are revenue-generating. As at the date of this announcement, the Group is in good operating condition with stable financial performance. A breakdown of the principal financial data of the Group and the relevant operating data of the Group's owned hospitals for the periods indicated is set forth below:

Principal financial data:

	For the year ended December 31, 2022 (RMB'000)	For the year ended December 31, 2021 (RMB'000) (Restated)
Revenue	1,484,903	1,297,430
<i>Revenue from operating owned hospitals</i>	1,366,817	1,202,774
<i>Revenue from other healthcare related business</i>	110,018	71,097
<i>Other revenue not related to healthcare business</i>	8,068	23,559
Gross profit	352,931	328,998
Net profit attributable to shareholders of the Company	-24,221	44,036

Relevant operating data:

	For the year ended December 31, 2022	For the year ended December 31, 2021
Inpatients		
Inpatient bed as at period end	9,688	8,728
Effective inpatient service bed-day capacity	3,536,120	3,185,720
Utilization rate (%)	88.7	87.1
Number of inpatient bed-days	3,134,950	2,773,964
Outpatients		
Number of outpatient visits	527,050	402,666

From the table above, the Group generates revenue mainly through the following three ways: (i) revenue from operating its owned hospitals, consisting of fees 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; (ii) revenue from other healthcare related businesses, primarily including revenue from sales of medical devices, pharmaceutical sales outside the hospitals, social mental services and the healthcare information technology business, etc.; and (iii) other revenue not related to healthcare business, including property leasing and property sales income, etc. For the year ended December 31, 2022, the total gross profit of the Group on operating income basis amounted to RMB352.9 million, representing an increase of 7.3% as compared with 2021; and the gross profit of the owned hospitals businesses on operating income basis amounted to RMB326.7 million, representing an increase of 6.9% as compared with 2021.

As at December 31, 2022, the number of the Group's owned hospitals increased to 29 (December 31, 2021: 27), including an independently established internet hospital (Yining Psychology Internet Hospital), and its operating beds increased to 9,838 (December 31, 2021: 8,328). For the year ended December 31, 2022, the Group had a total of 4,196 employees.

Looking ahead, the Group will focus on meeting the medical service needs of patients, build a “whole life cycle” layout and concept of great medical care, continue to strengthen the synergy and sustainability of mental health and elderly health care, deepen the integration of production, education, research and development and healthcare, and actively explore new areas of business such as social psychological services, and drug/device clinical trials.

(b) Sufficient Assets

As set out in the 2022 annual report of the Company, the Company’s operation scale and assets size remained substantial during the year/period. The main financial indicators of the assets of the Company for the periods indicated are as follows:

	For the year ended December 31, 2022 (RMB’000)	For the year ended December 31, 2021 (RMB’000)
Net cash generated from operating activities	227,221	193,896
	As at December 31, 2022 (RMB’000)	As at December 31, 2021 (RMB’000) (Restated)
Fixed assets*	695,020	721,847
Total assets	2,637,787	2,377,955
Total equity	1,325,903	1,280,279

* *Mainly include self-owned buildings, leasehold improvements, and medical equipment and devices for carrying out relevant medical services in self-owned hospitals.*

Based on the above, the Company is of the view that the Group has sufficient level of operations and assets of sufficient value to support its operations to comply with the requirements under Rule 13.24 of the Listing Rules.

(vi) Announce all material information for the Company’s shareholders and investors to appraise its position

The Company believes that there is no other undisclosed information that is material for the Company’s shareholders and other investors to appraise the Company’s position in accordance with the Listing Rules and other applicable regulatory requirements.

RESUMPTION OF TRADING

In light of the above, the Company is of the view that it has remedied the matters causing the suspension of trading in its shares, fulfilled all the requirements set out in the Resumption Guidance and fully complied with the Listing Rules to the Stock Exchange's satisfaction.

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on April 1, 2022. As the Resumption Guidance has been fulfilled, an application has been made by the Company to the Stock Exchange for the resumption of trading in the shares on the Stock Exchange with effect from 9:00 a.m. on June 8, 2023.

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.

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

Zhejiang, the PRC
June 7, 2023

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. QIN Hao and Mr. LI Changhao; and the independent non-executive directors are Ms. ZHONG Wentang and Mr. LIU Ning.