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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

KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

This announcement is made by Wenzhou Kangning Hospital Co., Ltd. (the “**Company**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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 and September 30, 2022 (the “**Announcements**”). Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the Announcements.

BACKGROUND

Trading in the shares of the Company has been suspended since April 1, 2022 pending the publication of the annual results for the year ended December 31, 2021. The delay in publication of annual results is due to the facts that (i) the Independent Investigation Committee of the Company has been conducting the Independent Investigation to address the outstanding issues as mentioned by PwC, the former auditor of the Company, in the Resignation Letter; and (ii) additional time is required for the current auditor (the “**Auditor**”) of the Company to take follow-up actions in completing the auditing processes for the annual results of 2021.

PwC, the former auditor of the Company, mentioned the following outstanding issues (the “**Outstanding Issues**”) in the Resignation Letter:

(1) Findings on Verification of Cash Flows in Personal Bank Accounts of Key Financial Personnel of the Company

PwC noted that a former individual minority shareholder of a subsidiary of the Company an individual investor who is a minority shareholder of a fund that invested in certain subsidiaries of the Company (the “**Indirect Investor**”) and two renovation service suppliers of the Company transferred funds to a certain employee of the Social Work Department and relevant financial personnel of the Company. The funds were further distributed to various accountants and cashiers of the Company, who withdrew the funds in cash and deposited the funds into the bank accounts of the Company. The accounting staff of the Company subsequently accounted for such deposited funds as repayment of medical fees due from patients. In 2019 and 2020, the total amount of such funds was RMB14.43 million. The former chief financial officer of the Company explained to PwC that the funds were donations from Minority Shareholders and suppliers to settle outstanding medical fees due from patients.

(2) Findings on Verification of Cash Flows in Personal Bank Account of a Certain Employee of the Social Work Department of the Company

PwC noted that a certain employee of the Social Work Department of the Company received a large amount of funds from five renovation suppliers in an aggregate amount of RMB9.79 million in 2020 and from January to June 2021. However, the funds were not recorded in the Company's financial statements for the six months ended June 30, 2021. The employee explained to PwC that the transfer of funds was for procuring certain materials required for renovation projects of the Company.

(3) Findings on Verification of Cash Flows in Personal Bank Account of a Senior Management Officer of the Company

PwC noted that a renovation supplier, a former individual minority shareholder of a subsidiary of the Company and the Indirect Investor, had a substantial amount of fund transfers with Ms. WANG Hongyue, the former chief financial officer of the Company, and the net inflow of such transfer amounted to RMB9.5 million for the period from January 1, 2018 to June 30, 2021. Ms. WANG Hongyue explained that these fund transfers were loans she personally obtained to pay for the repurchase of employee shares under the employee equity incentive scheme.

SCOPE OF THE INDEPENDENT INVESTIGATION AND WORKS PERFORMED

On March 14, 2022, the Independent Investigation Committee of the Company appointed an independent third-party accounting firm as the investigation firm (the **"Investigation Firm"**) to perform the Independent Investigation of the following alleged cash flow related matters (the **"Alleged Area(s)"**), including:

- (i) cash flows in the personal bank accounts of key finance personnel of the Company (the **"Alleged Area I"**);
- (ii) cash flows in the personal bank account of a certain employee from the Social Work Department of the Company (the **"Alleged Area II"**); and
- (iii) cash flows in the personal bank account of a senior management officer of the Company (the **"Alleged Area III"**).

For the purpose of the Independent Investigation, which covered the period from January 1, 2018 to February 28, 2022 (the **"Review Period"**), the Investigation Firm performed the following procedures:

- (i) developed an investigation plan and collected relevant documents;
- (ii) conducted in-depth interviews with relevant selected personnel, donors, former Shareholders and renovation suppliers involved in the Alleged Areas;
- (iii) reviewed the financial records related to the Alleged Areas, non-financial records such as supplier files, and internal control policies and procedures of the Company in relation to the Alleged Areas;

- (iv) obtained the cash flow details of personal bank accounts of employees involved in the Alleged Areas to identify large transfers or cash withdrawals by personnel involved in the Alleged Areas I and II;
- (v) performed forensic imaging of 40 computers of employees involved in the Alleged Areas, and reviewed 12,444 documents through keyword search to identify information relating to the investigation;
- (vi) performed testing on sampled patients implicated in Alleged Area I as well as sampled transactions between the Company and suppliers and Minority Shareholders involved in the Alleged Areas;
- (vii) performed walkthroughs of business processes related to the Alleged Areas to understand controls in place and identify apparent deviations from relevant policies and procedures relating to the Alleged Areas; and
- (viii) conducted publicly available background research on related business partners, subsidiaries, and respective shareholders, and compared the results with information provided by the Company to identify possible undisclosed conflicts of interest.

The Investigation Firm completed the relevant works during the period from March 14, 2022 to September 23, 2022, and issued the independent investigation report in draft on September 30, 2022 in respect of the above Alleged Areas.

LIMITATIONS ON THE REVIEW SCOPE OF THE DRAFT INDEPENDENT INVESTIGATION REPORT

In the draft independent investigation report, the Investigation Firm noted the major limitations encountered during the review as below:

- (i) The Investigation Firm has not held discussions to gain further information or confirm its observations with third parties except for certain parties as requested by the Investigation Firm and arranged by the Company.
- (ii) Two of the donors relating to Alleged Area I were not available for interviews with the Investigation Firm.
- (iii) The Investigation Firm has not assessed the impact of its findings on the Company's financial statements.
- (iv) The Investigation Firm analysed Ms. WANG Hongyue's personal bank statements to identify transactions that might be similar or relevant to the Alleged Areas. However, the Investigation Firm focused its analysis on transactions between Ms. WANG Hongyue and the Executive Directors of the Company, finance personnel implicated in Alleged Area I, suppliers, and minority shareholders of subsidiary hospitals of the Company instead of all cash flows of Ms. WANG Hongyue's bank accounts, which might involve transactions with other individuals whose background were unknown to the Investigation Firm.
- (v) Information regarding the loans and repayments were provided by Ms. WANG Hongyue, and the Investigation Firm was unable to independently confirm the completeness and veracity of such breakdowns.

SUMMARY OF INVESTIGATION

Alleged Area I: Cash flows in personal bank accounts of key finance personnel

The investigation confirmed the fund flows described by PwC that, in 2019 and 2020, key finance personnel withdrew large sums of cash from their personal bank accounts and deposited the money to the Company's bank accounts shortly after. These deposits were used to settle accounts receivable in the names of various patients. Such accounts receivable settlements totaled RMB14.43 million. The source of funds for these transactions 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**").

Ms. WANG Hongyue, the former chief financial officer of the Company stated that the funds from the two suppliers and two Minority Shareholders were donations that were solicited by her on behalf of the Company for certain underprivileged patients. In particular, the investigation found that for certain patients (identified as mentally disabled or impoverished by the relevant government authorities), after reimbursement from public sources (including public medical insurance, subsidies from the Ministry of Civil Affairs and miscellaneous subsidies from the PRC Government), the patients themselves or their families were still unable to pay the remaining medical fees incurred by the patients in full. Based on the Company's past experience, a certain percentage (around 5%-8%) of the medical fees of these patients were considered to be uncollectible. The Investigation Firm found that although it is highly probable that the Company would not be able to collect these amounts, it did not write off the amounts as bad debts, but made arrangements with certain charities whereby the Company made donations to, and received similar sums from the charities, which were applied to settle uncollectible medical fees from impoverished patients. Although these arrangements appeared to be unusual from an ordinary commercial perspective, the Company nonetheless understood this being an industrial practice that is prevalent among the hospitals.

These donations, however, were insufficient to fully settle the outstanding balance of uncollectible medical fees. According to the discussion between the Investigation Firm and various finance personnel, these outstanding accounts receivable, in particular those aged three years or above, should have been written off as bad debt, although this requirement was not fully implemented. The Investigation Firm found that the Company only recorded bad debt write-offs up to (i.e. not exceeding) the bad debt provision, and the outstanding accounts receivable that should have been but were not written off would be carried forward and prioritized for settlements in the following years, through the donation arrangements with charities.

According to Ms. WANG Hongyue, 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 to settle long aging accounts receivable; instead, the Company was required to record these long aging accounts receivable as bad debts, which could negatively impact the financial performance of the Company.

Ms. WANG Hongyue stated in her interviews that she believed she had a responsibility as the chief financial officer to resolve this, although accounts receivable and bad debt management were not her key performance indicators. On her own initiative and without informing the Board, she sought donors and ultimately raised RMB14.43 million from various parties (the "**1443 donations**"). The Investigation Firm performed a sample testing on medical records of the patients involved in the 1443 donations, and found no abnormality in the real existence of such patients.

Observations regarding whether the fund flows were usual donations

The Investigation Firm found that, two donors confirmed during interviews that they donated to the Company. One of the donors, who was the controlling person of a renovation supplier, said he donated to the Company because he made profits from past renovation projects of the Company and saw his donations as a gesture of goodwill in view of the long-term relationship with the Company. While the other donor also confirmed during the interview that she made donations to the Company, her account of events contained notable inconsistencies with the findings of the Investigation Firm (e.g. the timing of the donations).

The Investigation Firm also noted other elements of the 1443 donations which did not reflect that the fund flows were usual donations in nature:

- (i) According to Ms. WANG Hongyue, for some of the donations from one of the Minority Shareholders amounting to RMB5.25 million, the funds in fact came from another individual who transferred funds to a bank account designated by Ms. WANG Hongyue. Ms. WANG Hongyue further stated that he made the transfers as he was renting a property from Wenzhou Guoda Investment Co., Ltd (at the time a subsidiary of the Company) at a rate that was below the market. However, during the Investigation Firm's interview this individual, he did not describe the transfers as voluntary donations to the Company, and instead, he said the transfers were a form of compensation to settle negotiations with Ms. WANG Hongyue regarding a potential rent increase.
- (ii) The donations were processed in a convoluted manner. The donations were transferred from the donors to two Company employees, who further distributed the funds to the personal bank accounts of cashiers/accountants at the Wenzhou General Hospital and seven subsidiary hospitals. These cashiers/accountants then withdrew the funds in cash, or made bank transfers, to deposit the funds to the bank accounts of the Company in smaller amounts in the name of patients, to appear as if the patients had settled their outstanding fees. Moreover, Ms. WANG Hongyue personally contributed to some of the donations by transferring sums from her personal bank accounts to these finance personnel, stating that she had previously borrowed from some of the donors and agreed with the donors that, instead of repaying them, she would donate the repayments to the Company to settle outstanding medical fees due from patients. The Investigation Firm was unable to confirm the reasonableness of this explanation.
- (iii) During the investigation process, the Investigation Firm noted that for the majority of the donations, the Company made payments to the donors, as well as a fund in which one of the donors was an investor (the fund held shares in certain Company subsidiaries), around the same time (or amount) that the donors made the donations to the Company through Company employees, although the investigation had not identified any direct evidence that these payments made by the Company to the donors were related to the 1443 donations. For example, for the 1443 donations from renovation suppliers, the Company made payments to these suppliers for renovation services at around the same time as they made the 1443 donations. On a different occasion, for certain 1443 donations from a former shareholder of a Company subsidiary, the donation amount was close to the consideration paid by the Company to acquire his shares in the subsidiary, although the Investigation Firm was told by Ms. WANG Hongyue during interviews that the source of funds for his donation was not payments from the Company, but payments from another individual who transferred the money to the donor (as designated by Ms. WANG Hongyue) as a form of compensation to settle negotiations with Ms. WANG Hongyue regarding a potential rent increase by Wenzhou Guoda Investment Co., Ltd. For all the donations described above, the donors and Ms. WANG Hongyue stated in the interviews conducted by the Investigation Firm that the payments made by the Company to the donors were not related to the donations they made to the Company.

- (iv) In an attempt to identify the 1443 donations as ordinary transactions from charities, Ms. WANG Hongyue arranged for the Company employees to sign donation agreements with two charities as “supervisors” of the donations, after the 1443 donations had already taken place.
- (v) The 1443 donations were not described as donations in the Company’s ledgers or audited financial statements.

Observations on other transactions similar to the 1443 donations

The Investigation Firm analysed the accounting records of the Wenzhou General Hospital and the seven subsidiary hospitals involved in the 1443 donations to determine whether there were accounts receivable settlements that shared similar characteristics as the 1443 donations from an accounting perspective (i.e. an entry with a cash on hand or bank deposit as debits and various accounts receivable from patients as credits). The Investigation Firm identified accounting entries totalling RMB35.9 million that had the characteristics (from an accounting perspective) similar to the 1443 donations and selected 31 samples totalling RMB8.8 million (24.5% of the total amount) for further testing, focusing on large amount accounts receivable settlements, and settlements for long aging receivables relating to patients in the 1443 donations. The Investigation Firm observed that although some of these settlements in the samples corresponded to long aging accounts receivable and were therefore similar to the 1443 donations in this regard, the sources of funds for these settlements were not individual donors or suppliers of the Company, but a type of insurance specific to low-income farmers, who were insured by the Wenzhou Government to receive additional coverage for low-income farmers on medical fees and hospitalization. The Investigation Firm did not note exceptions from such further testing, and was able to match the details of the tested samples to the Company’s records of insurance reimbursements relating to the low-income farmer patients. As a result, the further tested accounts receivable settlements did not appear to the Investigation Firm to be part of the scheme related to the 1443 donations.

Other observations relating to cash withdrawals by finance personnel implicated in the 1443 donations

The Investigation Firm analysed the bank statements of the relevant finance personnel (i.e., those who helped process the funds relating to the 1443 donations) to see whether there were large cash withdrawals that were not yet attributed to the 1443 donations. The hypothesis was that most of the funds withdrawn by the finance personnel during the relevant period of the 1443 donations should match with the settlement of accounts receivable relating to the 1443 donations as disclosed by the Company.

Although the Investigation Firm identified additional cash withdrawals of approximately RMB0.2 million by the relevant finance personnel which was not attributable to the 1443 donations, the Company provided explanations and supporting documents pursuant to which the Investigation Firm noted that the above-mentioned cash withdrawals were different from those in the 1443 donations, in that the funds were mostly cash collected directly from patients and they were mostly settlements for outstanding medical fees aged less than three months. No further exceptions were noted.

Alleged Area II: Fund flows in personal bank account of an employee of the Social Work Department

PwC found that, from January 2020 to June 2021, an employee of the Social Work Department of the Company (the “**Employee**”) personally received large transfers totalling RMB9.79 million from five renovation suppliers, all of which were controlled by the same individual (the “**Actual Controller**”). In addition to the transfers identified by PwC, the Investigation Firm also identified that the Employee received an additional RMB2.3 million from the Actual Controller and his related parties from July 2021 to October 2021. Based on the works performed, from January 2018 to February 2022, the Employee received RMB12.1 million in total from the Actual Controller and his related parties.

One of the five renovation suppliers controlled by the Actual Controller also donated RMB0.9 million to the Company in Alleged Area I.

In April 2022, the Employee represented that the funds from the Actual Controller and his related parties were for the Employee to purchase renovation materials on the Actual Controller’s behalf for the Company’s renovation projects. However, after the Investigation Firm found anomalies in her supporting documents provided for the said purchases, the Employee updated her representations in May 2022 and stated that some of the receipts provided as supporting documents were fabricated by her, and that the fund flows in fact reflected an arrangement in which the Actual Controller shared the profits 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, who is the younger brother of the Company’s chairman, Mr. GUAN Weili, knew the Actual Controller from having worked in the Company’s Construction Department (the Employee’s spouse departed from the Company in late 2019 or early 2020).

According to the Employee, her spouse worked with the Actual Controller on ten projects, from which the Actual Controller received a total of approximately RMB16.1 million in payments from the Company (which accounted for 42% of all payments from the Company to the Actual Controller during the Review Period). 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 the following:

- (i) The Employee did not disclose the profit-sharing arrangements with the Actual Controller to the Company. Although the Company’s employee conduct policy provided examples of payments received from suppliers that should be reported by the employees to the Company, the Employee was not aware of the policy requirements that explicitly mandated disclosures relating to conflict of interest or prohibited profit sharing with suppliers. She confirmed that she knew such arrangement constituted a conflict of interest and was not allowed by the Company, but she thought no one would know about it. In addition, the Employee did not disclose to the Company that her parents were suppliers of the Company’s tuck-shop.

- (ii) The profit made by the Employee or her spouse from the ten projects with the Actual Controller was based on estimates provided by the Company, most of which corresponded to no supporting documents. For example, the payments made to contractors and material suppliers cannot be reconciled to individual projects, and the Employee or her spouse did not prepare or keep the goods receipt note in relation to these project costs (that said, this was not uncommon for small to medium sized renovation companies). As a result, the Investigation Firm had to rely on the Employee to identify from her transaction history which of the payments made from her bank accounts to labour contractors and material suppliers were related to the projects that involved a profit sharing arrangement between the Actual Controller, the Employee and her spouse.

Alleged Area III: Cash flows in personal bank account of a senior management officer of the Company

According to PwC, from January 2018 to June 2021, there were cash flows totalling RMB9.5 million between Ms. WANG Hongyue and three individuals who transacted with the Company (“**Individuals of Interest**”), namely:

- (i) a former shareholder (the “**Former Individual Shareholder**”) of a subsidiary hospital whose interest was acquired by the Company in May 2019;
- (ii) the Indirect Investor;
- (iii) an individual who provided construction and renovation services to the Company (the “**Renovation Supplier**”).

The Former Individual Shareholder and the Indirect Investor were also implicated in Alleged Area I.

Regarding the nature of the fund transfers, Ms. WANG Hongyue stated to PwC and the Investigation Firm that the inflows to her bank accounts were personal loans provided to her by the Individuals of Interest, and that the outflows were her repayments of such personal loans or interest payments to the Individuals of Interest.

The Investigation Firm confirmed the fund flows identified by PwC, but noted that the fund flows did not reflect the common characteristics of loans. For example, the total amount of transactions that were described by Ms. WANG Hongyue as repayments were at times more than the sum of the principal loan amounts and accrued interests described by Ms. WANG Hongyue.

In addition to the Individuals of Interest, significant fund flows with other individuals such as Mr. GUAN Weili, the chairman of the Company, as well as Company employees and former minority shareholders of the Company’s subsidiaries were noted in the review of Ms. WANG Hongyue’s personal bank statements.

According to a breakdown provided by Ms. WANG Hongyue, in addition to the Individuals of Interest, she obtained loans from 15 other individuals totalling approximately RMB83.4 million, of which approximately RMB61.5 million had been repaid.

The Investigation Firm performed further works to verify the explanations provided by Ms. WANG Hongyue regarding the fund flows and identified two matters that might require further attention:

- (i) Renovation costs paid to suppliers: In some cases, the Individuals of Interest received payments from the Company at around the same time as their transfers to Ms. WANG Hongyue. Further to this, the sample testing showed that at least three payments totalling RMB7 million corresponded to a renovation contract involved with the Renovation Supplier, which lacked supporting documents for significant cost increments amounting to RMB8 million, although the Renovation Supplier confirmed that the cost increment was for additional work performed. Ms. WANG Hongyue stated that, although she was involved in the approval of payments to the Renovation Supplier, such payments also required the approval of the infrastructure department, which is responsible for confirming that services had been rendered and the payment amounts were accurate. Further, the Company provided an assessment report dated September 21, 2022 issued by a cost consulting agency who was an independent third party. The report stated that, based on the assessment conducted in September 2022, the overall price of the renovation work for the aforementioned project was fair (although the Investigation Firm did not independently verify the contents of the assessment report).
- (ii) Acquisition of certain subsidiaries: Ms. WANG Hongyue engaged in a series of transactions in which two former minority shareholders of the Company's subsidiaries held minority shares in these subsidiaries on Ms. WANG Hongyue's behalf. When the Company paid these individuals to acquire their shares in the subsidiaries, Ms. WANG Hongyue confirmed to have made personal gains amounting to approximately RMB1.8 million. The Investigation Firm tested one of the acquisitions on a sample basis. According to the minutes of an investment committee meeting and the feasibility report of the acquisition, the main reasons for acquiring the subsidiary's shares included substantial patient growth, reasonable public medical insurance reimbursement coverage and estimated annualized return on investment of 19%. In the other acquisition, the Company provided documents to show that the Company's investment committee considered the valuation to be reasonable on the basis that the average number of inpatients at the subsidiary hospital increased by 31.7% compared to the previous acquisition, while the consideration of the acquisition only increased by 10% compared to the previous acquisition.

Ms. WANG Hongyue had stated to PwC that she obtained loans from the Individuals of Interest for the purpose of repurchasing shares held by employees under the employee equity incentive scheme. During the interviews, Ms. WANG Hongyue did not provide the Investigation Firm with the purpose of each loan she obtained (referring to those from the Individuals of Interest as well as other individuals), but stated that, in addition to repurchasing shares under the employee equity incentive scheme, she also spent the money obtained to personally purchase the Company's H shares as well as paying for other personal expenses.

The Former Individual Shareholder and the Indirect Investor were involved in both Alleged Area I and Alleged Area III. In addition to the 1443 donations where they transferred money to Company employees designated by Ms. WANG Hongyue, they also made large transfers to Ms. WANG Hongyue that were not donations; these transfers were described by Ms. WANG Hongyue to be personal loans, although the Investigation Firm was of the view that these transfers did not show common characteristics of loans.

As such, whilst there is no direct evidence to substantiate a connection between the funds paid by the Company and the funds received by Ms. WANG Hongyue, the Independent Investigation was only able to confirm that Ms. WANG Hongyue and her designated parties received large transfers from parties related to or who transacted with the Company; some of these funds formed part of the 1443 donations, some for company related transactions and some for Ms. WANG Hongyue's personal benefits or other personal expenses.

The Directors of the Company do not appear to have had actual knowledge of the Alleged Areas at the material times

For Alleged Area I, Ms. WANG Hongyue stated during the interviews that, at the time of the transactions, no Company personnel knew about the 1443 donations, other than the finance personnel who were directly or indirectly instructed by her to process the funds. Both Mr. GUAN Weili and Ms. WANG Lianyue stated during the interviews that they only became aware of the 1443 donations subsequent to the queries from PwC, and Ms. WANG Lianyue further stated that Ms. WANG Hongyue was entrusted to handle all of the Company's financial matters. From the Investigation Firm's discussions with the finance personnel who processed the 1443 donations, all such finance personnel confirmed that they only received instructions from Ms. WANG Hongyue and the finance manager who was designated by Ms. WANG Hongyue to coordinate the fund flows of the donations, while only the Employee from the Social Work Department claimed, without any corroborative support, that she might have spoken with WANG Lianyue about the 1443 donations at unspecific times.

For Alleged Area II, the Employee stated that she did not disclose her conflict of interest to anyone at the Company, although she knew that it was inappropriate and the Company did not allow its staff to share profits from the Company's projects with the Company's suppliers. Mr. GUAN Weili stated that he thought the Employee's spouse worked for the Actual Controller instead of working with the Actual Controller to share profits, and he was not aware of the Employee or her spouse profiting from the Company's projects.

For Alleged Area III, Ms. WANG Hongyue stated that she entered into loan arrangements with various individuals personally without involving other senior management of the Company (including its Board members). For Ms. WANG Hongyue's repurchase of shares under the employee equity incentive scheme and the matter in respect of another asset acquisition of the Company which was planned but eventually unfulfilled, Mr. GUAN Weili might have at most been aware that she had to raise funds for those matters, but was neither aware of where she obtained the funds from, nor involved with her obtaining the funds.

Therefore, pursuant to the works performed in the Independent Investigation, there are no materials available to the Investigation Firm to date to conclusively evidence the knowledge and involvement of the current Executive Directors of the Company in the Alleged Areas and other issues identified in the investigation at the point in time when the Alleged Areas occurred.

The Board members, together with the Company's senior management, are committed to carrying on the Company's business under a strong and robust internal control environment.

DUTIES OF THE INDEPENDENT INVESTIGATION COMMITTEE AND OPINIONS OF THE BOARD

The Company has established an Independent Investigation Committee to provide the Board with an investigation report, recommendations and relevant measures to be taken on the relevant investigation matters. The main duties of the Independent Investigation Committee are as follows:

1. To carry out independent investigation on matters recommended and/or requested by the audit committee and auditors in relation to certain issues identified in the auditing for A Shares IPO;
2. To engage an independent third-party investigation agency to assist in the investigation;
3. To report to the Board on the progress and new findings of the relevant investigation matters in a timely manner;
4. To provide the Board with a report, recommendations and relevant measures to be taken on the relevant investigation matters.

The Independent Investigation Committee has appointed a third-party independent law firm as its legal adviser and, with the assistance of the legal adviser, completed the review of the draft independent investigation report prepared by the Investigation Firm. The Independent Investigation Committee is of the view that the draft independent investigation report has been thoroughly conducted by professionals and has been completed to the extent presently and reasonably possible. The Independent Investigation Committee also fully understands that the draft independent investigation report may be subject to the limitations and difficulties set out in the section headed "LIMITATIONS ON THE REVIEW SCOPE OF THE DRAFT INDEPENDENT INVESTIGATION REPORT" above in this announcement. (i) This draft independent investigation report has addressed the factual matters pertaining to the Alleged Areas; (ii) The Company had established an Independent Investigation Committee to organize relevant departments to identify the problems of the Company by means of internal inspections, mutual inspections between departments and external investigations and other measures; (iii) The senior management officer (i.e. Ms. WANG Hongyue) as a principal party in Alleged Areas I and III had resigned from the position as chief financial officer on December 31, 2021, and resigned from the position as the executive director of the Company and the authorized representative of the Company during the course of Independent Investigation; (iv) The Company cooperated with the Investigation Firm in all material aspects, and provided all materials required by the Investigation Firm to the extent possible. The Independent Investigation Committee has submitted the draft independent investigation report together with its opinion to the Board of the Company for consideration.

The Board is determined to rectify all issues arising from the Alleged Areas with reference to the draft independent investigation report.

REMEDIAL MEASURES

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

Given that Ms. WANG Hongyue has resigned from the position as an executive director of the Company, the Board intends to elect a professional with experience in internal controls and compliance as an executive director of the Company.

On January 9, 2022, the Company appointed Mr. JIN Hui (with relevant accounting qualifications) as the chief financial officer of the Company to be responsible for the financial management of the Company.

The Company intends to appoint an appropriate qualified professional manager with relevant professional experience as the head of the Audit and Supervision Department of the Company to comprehensively take charge of the improvement of internal controls where necessary.

The Company intends to replace the principal responsible persons of the Finance Department, the Social Work Department and the Audit and Supervision Department.

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

The Company has appointed a professional internal control advisory firm and SHINEWING Risk Services Limited as consultants of the Company to provide diagnostic advice on corporate governance and internal controls and to review the relevant internal control system, and make rectification recommendations for issues and concerns identified during the independent investigation to ensure that qualified professionals are available to monitor the Company's compliance with the Listing Rules and the relevant disclosure requirements thereunder.

4. Reassessing accounting treatment and making necessary corrections of prior accounting errors, if any

The Board has instructed the management of the Company to reassess the accounting treatments related to the arrears of the impoverished patients identified in the Independent Investigation, and to carefully assess the recoverability of the historical arrears and make 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

The Board has determined that the Indirect Investor involved in Alleged Area I and Alleged Area III and the fund invested by it (currently being a minority shareholder of a subsidiary of the Company) are regarded as connected persons or related parties of the Company, and the transactions with them in the future, if any, will be subject to the requirements of Chapter 14A of the Listing Rules. In addition, the Board included the Renovation Supplier involved in Alleged Area III and other renovation companies controlled by the Actual Controller in the the vendors blacklist of the Company.

6. Strengthening the internal control system and compliance supervision

The Company shall strengthen its internal controls, and promptly address and resolve all loopholes, deficiencies or problems identified in the process of its ongoing review and enhanced internal controls. In particular, the Company shall:

- i) strengthen fund management, income and expense management, accounting and financial reporting management, and set up new checks and balances to ensure due supervision, authorization and approval;
- ii) enhance and impose more stringent supervision of procurement management, engineering construction management and relevant supplier management procedures;

- iii) supervise the approval and execution of material contracts and complete relevant approval and regulatory procedures separately;
- iv) strengthen governance and operational control over all operating businesses and corporate supervision. In particular, it shall ensure the consistency of the policies, agreements and regulation at the levels of the Company, and its subsidiaries and businesses, as well as the review and supervision of all applicable areas; (b) formulate formal record-keeping requirements, including maintaining the relevant supporting materials, minutes of meeting resolutions, etc.;
- v) implement and continue to strengthen measures to declare conflicts of interest of the directors, senior management and employees of the Company, and implement checks and balances at the Company and its subsidiary levels and strengthen and monitor the systems and control measures for preventing any directors and/or other senior management from any conduct beyond their power and/or other without proper deliberation and approval; and
- vi) establish a systematic charitable donation system, etc.

CONTINUED TRADING SUSPENSION

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. Trading in the shares of the Company will remain suspended until further notice.

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

Zhejiang, the PRC
October 14, 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. QIN Hao and Mr. LI Changhao; and the independent non-executive directors are Mr. ZHAO Xudong, Ms. ZHONG Wentang and Mr. LIU Ning.