



溫州康寧醫院股份  
Wenzhou Kangning Hospital Co., Ltd.  
(A joint stock limited liability company incorporated in the People's Republic of China)  
Stock code: 2120



2021  
ANNUAL REPORT

# Contents

	Page
CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS	4
CHAIRMAN 'S STATEMENT	5
MANAGEMENT DISCUSSION AND ANALYSIS	7
REPORT OF THE BOARD	26
REPORT OF THE SUPERVISORY COMMITTEE	42
CORPORATE GOVERNANCE REPORT	43
DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT	61
AUDITOR 'S REPORT	74
CONSOLIDATED BALANCE SHEETS	78
PARENT COMPANY BALANCE SHEETS	81
CONSOLIDATED INCOME STATEMENT	84
PARENT COMPANY INCOME STATEMENT	86
CONSOLIDATED CASH FLOW STATEMENT	88
PARENT COMPANY CASH FLOW STATEMENT	90
CONSOLIDATED STATEMENT OF CHANGES IN OWNERS ' EQUITY	92
STATEMENT OF CHANGES IN PARENT COMPANY OWNERS ' EQUITY	96
NOTES TO THE FINANCIAL STATEMENTS	98
DEFINITIONS	243

## Corporate Information

### Board of Directors

#### Executive Directors

Mr. GUAN Weili (*Chairman*)  
Ms. WANG Lianyue

#### Non-executive Directors

Mr. QIN Hao  
Mr. LI Changhao

#### Independent Non-executive Directors

Mr. ZHAO Xudong  
Ms. ZHONG Wentang  
Mr. LIU Ning

#### Audit Committee

Ms. ZHONG Wentang (*Chairman*)  
Mr. LIU Ning  
Mr. LI Changhao

#### Nomination Committee

Mr. LIU Ning (*Chairman*)  
Mr. GUAN Weili  
Mr. ZHAO Xudong

#### Remuneration Committee

Mr. ZHAO Xudong (*Chairman*)  
Ms. ZHONG Wentang  
Mr. LIU Ning

### Strategy and Risk Management Committee

Mr. GUAN Weili (*Chairman*)  
Ms. ZHONG Wentang  
Mr. QIN Hao

### Supervisory Committee

Mr. XU Ning (*Chairman*)  
Mr. XU Yongjiu  
Mr. XIE Tiefan  
Mr. QIAN Chengliang

### Joint Company Secretaries

Mr. WANG Jian  
Mr. WONG Wai Chiu

### Authorized Representatives

Mr. GUAN Weili  
Mr. WONG Wai Chiu

### Auditor

BDO China Shu Lun Pan Certified Public Accountants LLP

### Legal Advisor as to Hong Kong Laws

Clifford Chance

### Registered Office and Head Office in the PRC

Shengjin Road  
Huanglong Residential District  
Wenzhou, Zhejiang  
PRC

## Corporate Information

### Principal Place of Business in Hong Kong

40/F, Dah Sing Financial Centre  
248 Queen's Road East  
Wanchai  
Hong Kong

### H Share Registrar

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### Stock Code

2120

### Company's Website

[www.knhosp.cn](http://www.knhosp.cn)

### Investor Relations

Telephone: (86) 577 8877 1689  
Fax: (86) 577 8878 9117  
Email: [ir@knhosp.cn](mailto:ir@knhosp.cn)

## Financial Highlights

### Principal Financial Data and Indicators

	For the year ended December 31,				
	2021	2020	2019	2018	2017
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
		(Restated)			
Revenue	1,297,430	989,012	860,692	745,972	666,436
Profit before income tax	95,704	74,318	55,523	106,910	69,863
Income tax expenses	54,831	30,662	-17,295	-31,941	-22,027
Net profit	40,873	43,656	38,228	74,969	47,836
Net profit attributable to					
Shareholders of the Company	44,049	55,770	57,289	80,596	49,071
Non-controlling interests	-3,176	-12,114	-19,061	-5,627	-1,235
	As of December 31,				
	2021	2020	2019	2018	2017
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
		(Restated)			
Total assets	2,377,968	2,161,275	2,117,352	1,840,724	1,690,401
Total liabilities	1,106,880	955,553	855,843	635,451	579,904
Total equity	1,271,088	1,205,722	1,261,509	1,205,273	1,110,497
Equity attributable to					
Shareholders of the Company	1,199,073	1,113,057	1,164,484	1,120,995	1,051,834
Non-controlling interests	72,015	92,665	97,025	84,278	58,662

Note: During the Reporting Period, the Group had certain items that require retrospective correction due to the accounting errors in prior periods, and the financial data of the previous financial year (the financial year ended December 31, 2020) has been restated accordingly. For more details, please refer to 'Notes to the Financial Statements – Other significant events' of this report.

## Chairman's Statement

Dear Shareholders,

On behalf of our Group and the Board of Directors, I would first like to express sincere gratitude to each shareholder and all sectors of the community for your continuous support and kindness towards us.

In the past year, due to the impacts of regular prevention and control of the COVID-19 pandemic (the "Pandemic"), global economic downturn and other factors, people's psychiatric and mental health has faced unprecedented pressure. The World Health Organization has called on the global community to jointly increase investment in the sector of psychiatric health. As the works for psychiatric health and mental health were actively advocated nationally and received more social attention, public awareness of psychiatric health and mental health was raised further. In 2021, we actively seized the opportunities arising from the new landscape and requirements regarding the new era of psychiatric and mental health development to drive the high-quality growth of our Group. We embodied the essence of a doctor to be a professional and rigorous protector of mental health.

In 2021, as the first year of the 14th Five-Year Plan, the PRC fully implemented the Healthy China initiative, and proposed to elevate mental health and psychiatric health to a strategically important position in the field of healthcare. The "14th Five-Year National Health Plan" clearly proposes to improve mental health and psychiatric health services, encourages social forces to organize non-profit healthcare facilities in regions with weak medical resources and in areas of shortages such as rehabilitation, nursing, and mental health, which lays the main key tone for the long-term development of the field of mental health in China.

With the support of policy dividends, we are deeply aware of shouldering the social responsibility and the mission of doctors in the new era. In the past year, we have gathered the medical and nursing forces of the Group to go to the anti-pandemic front line many times. In particular, we have given full play to the advantages of specialties, such as building an online psychological assistance platform, providing psychological assistance and crisis intervention services to help win the battle of pandemic prevention and control with practical actions. In addition, we also took the initiative to undertake social psychological service tasks to promote the harmonious and stable development of society, and provided full-life cycle services for special groups, such as teenagers, children and the elderly, through family, community and campus channels. Our "Xinfu Workshop" has become a national demonstration site for social comprehensive psychological services.

In 2021, the Group's healthcare business continued to develop steadily and we recorded operating income of our self-owned hospitals of RMB1,202.8 million, representing an increase of 31.2% as compared with 2020. In the past year, the scale of the Group's development pattern of "Based in Wenzhou, intensively cultivated in Zhejiang" began to emerge. The number of our healthcare facilities has increased from 24 at the end of 2020 to 27 at the end of 2021 (including one independent Internet hospital), and the number of operating beds has increased from 7,438 at the end of 2020 to 8,728 at the end of 2021. In addition, leveraging on the advantages of our disciplines and high-end scientific, educational and medical resources, we have increased investment in related academic scientific research and technology research and development. The Group's flagship hospital, Wenzhou Kangning Hospital, was approved as the Zhejiang Provincial Clinical Research Center for Psychiatric Illnesses and the Zhejiang Branch of the National Clinical Research Center for Psychiatric Illnesses and recognized as a high-tech enterprise, which further enhanced the medical service capabilities and core competitiveness of the Group.

## Chairman's Statement

Looking forward to 2022, we shoulder missions and stay true to our original aspirations. Externally, multiple factors such as uncertainty of future economic developments, the pandemic and the reform of medical insurance payment have put forward higher and more comprehensive requirements for the overall operation of the Group; internally, we need to practically continue improving the level of corporate governance and the quality of internal control to better empower and help the sustainable and healthy development of the Group. No matter how the external environment changes, we will march ahead against difficulties, be keen to make progress, forge ahead with courage, so as to take responsibility for the new mission, compose a new chapter with practical actions, and work hard to achieve a further leap forward in the development of Kangning!

GUAN Weili  
*Chairman*

Zhejiang, the PRC  
November 10, 2022

# Management Discussion and Analysis

## Business Review and Outlook

### Psychiatric Specialized Medical Service Industry in China

The psychiatric health and mental health field, being strongly associated with people physical and mental health, have a profound impact on the economic and social development. As a major public health and livelihood issue, it is also a key area and important topic inescapable in the full implementation of the strategy of “Healthy China” .

With rapid economic and social development along with accelerating pace of life, mental health problems, including common mental disorders and psychological and behavioral problems such as depression and anxiety disorders, have been rising year by year. Psychological stress events and accidents or incidents caused by patients with mental disorders occur from time to time, while there is an urgent need to strengthen the disease intervention for specific groups such as Alzheimer’s disease and children with autism, indicating that the efforts to support mental health still face serious challenges. The main reasons are, firstly, mental health resources are still lacking; secondly, the daily screening mechanism for patients with severe mental disorders has not been fully developed yet; thirdly, the community rehabilitation service system for mental disorders is still incomplete; fourthly, the establishment of the social psychological service system is still on the experimenting exploration stage; fifthly, the public awareness towards common mental disorders such as anxiety and depression and psychological and behavioral problems is low, and social prejudice still exists.

On October 25, 2016, the Central Committee of the Chinese Communist Party and the State Council issued the “Healthy China 2030 Planning Outline”, which proposes to strengthen the construction and standardized management of mental health service system, increase the publicity of mental health awareness, improve mental health literacy, strengthen the intervention in common mental disorders such as depression and anxiety and psychological and behavioral problems, and increase the early detection and timely intervention of psychological problems in key groups. It also proposes to enhance the report, registration and rescue management of patients with severe mental disorders, fully promote community rehabilitation services for mental disorders, and improve the intervention ability and level of treating psychological problems caused by emergencies. By 2030, the level of intervention in the prevention and treatment of common mental disorders as well as the detection of psychological and behavioral problems is expected to be significantly improved.

## Management Discussion and Analysis

On December 18, 2019, 12 departments including National Health Commission and Publicity Department issued the Healthy China Action – Child and Adolescent Mental Health Action Plan (2019-2022), which puts forward the stage goals for the indicators related to child and adolescent mental health. It promotes the basic establishment of the social environment beneficial to children and adolescents' mental health, so as to form a mental health service model connecting school, communities, families, media, and medical and healthcare institutions, implement preventive intervention measures for children and adolescents with psychological and behavioral problems and mental disorders, strengthen psychological counseling of key groups, aiming to lay an important foundation for the improvement of children and adolescents' health and wellness and the co-building and co-sharing of Healthy China.

On September 9, 2021, the State Council promulgated the National Human Rights Action Plan (2021-2025), which proposes the deep implementation of the Healthy China initiative to ensure the provision of comprehensive lifecycle health services for the public at large, improve psychiatric health and mental health service system, build 100 mental health welfare facilities in the areas with insufficient mental health service capacity, in an effort to provide centralized care and rehabilitation services for patients with difficult mental disorders as well as enhance children's mental health education and services.

On January 10, 2022, 21 departments including the National Development and Reform Commission (NDRC) and National Health Commission issued the Public Service Planning for the 14th Five-Year Plan, which clearly points out the goals to expand the scale of doctors and registered nurses in psychiatry and geriatrics, which has been facing manpower shortage. It also proposes to improve the quality of medical worker training, strengthen the establishment of psychiatric treatment capacity and welfare facilities, and encourage the social forces to focus on enhancing the supply of inclusive and normative services in the medical field, thus encouraging the social participation in the establishment of diversified supply for public services.

On April 27, 2022, the General Office of the State Council issued the 14th Five-Year Plan for National Health, which proposes to improve the service of psychiatric health and mental health, further increase the rescue efforts for patients with severe mental disorders, promote mental health knowledge and public awareness of mental illness, develop mental health services in an orderly manner, and establish a strong social psychological service system, so as to meet the public needs for mental health and promote the coordinated economic and social development.

# Management Discussion and Analysis

## Business Review

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

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

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

## Management Discussion and Analysis

# Management Discussion and Analysis

## Business Outlook

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

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

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

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

## Management Discussion and Analysis

### Financial Review

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

#### *Revenue and Cost of Revenue*

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

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

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

#### *Revenue and cost of revenue from operating its owned hospitals*

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

## Management Discussion and Analysis

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

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

Note:

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

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

## Management Discussion and Analysis

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

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

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

## Management Discussion and Analysis

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

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

## Management Discussion and Analysis

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

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

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

Cost of revenue of the Group's owned hospitals primarily consisted of pharmaceuticals and consumables used, employee benefits and expenses, depreciation of right-of-use assets, depreciation and amortization, canteen expenses and testing fees.

## Management Discussion and Analysis

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

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

### Revenue from other healthcare related business

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

### Other revenue not related to healthcare business

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

### Gross Profit and Gross Profit Margin

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

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

## Management Discussion and Analysis

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

### *Tax and Surcharge*

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

### *Selling Expenses*

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

### *Administrative Expenses*

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

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

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

## Management Discussion and Analysis

### *Research and Development Expenses*

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

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

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

### *Finance Expenses – Net*

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

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

## Management Discussion and Analysis

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

## Management Discussion and Analysis

### *Non-Operating Income and Non-Operating Expenses*

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

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

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

### *Income Tax Expense*

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

## Management Discussion and Analysis

### Financial Position

#### *Inventory*

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

#### *Accounts Receivables*

As of December 31, 2021, the balance of accounts receivables amounted to RMB311.8 million (restated as of December 31, 2020: RMB225.3 million), representing an increase of 38.4% as compared with that of December 31, 2020, mainly due to the increase in operational income of the Group's owned hospital. For details on the restatement of accounts receivables as of 31 December 2020, please refer to Notes to the Financial Statements – Other significant events in this report.

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

#### *Other Receivables and Prepayments*

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

#### *Investment Properties*

As of December 31, 2021, the Group had no investment properties (as of December 31, 2020: RMB107.8 million). The

## Management Discussion and Analysis

### *Accounts Payables*

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

### *Receipts in Advance and Contract Liabilities*

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

### *Other Payables*

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

## Liquidity and Capital Resources

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

	For the year ended December 31,	
	2021 (RMB'000)	2020 (RMB'000) (Restated)
Net cash generated from operating activities	193,896	199,656

## Management Discussion and Analysis

### *Net Cash Generated from Financing Activities*

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

### *Significant Investment, Acquisition and Disposal*

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

### Indebtedness

#### *Bank Borrowings*

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

#### *Contingent Liability*

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

#### *Asset Pledge*

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

#### *Lease Liabilities*

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

#### *Financial Instruments*

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

## Management Discussion and Analysis

### *Exposure to Fluctuation in Exchange Rates*

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

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

### *Gearing Ratio*

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

### *Employees and Remuneration Policy*

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

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

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

### *Employee Training Program*

The Company put great emphasis on the training and development of medical personnel, proactively establish "in-hospital teaching" base and promote the coordinated development of medical practice, education and research. The Company formulates annual plans for relevant employee training, ward clinical diagnosis and treatment teaching and annual plan of various management trainings according to the job requirements of each professional position, and devote to provide employees with pre-job training (such as stress management and workplace relations and on-the-job professional knowledge training) to continuously improve their professional quality.

## Report of the Board

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2021.

### Principal Activities

The principal activities of the Group are operating a network of healthcare facilities that primarily focus on providing psychiatric specialty care and elderly rehabilitation service across various regions in China. Details of the principal activities of the principal subsidiaries of the Company are set out in “Notes to the Financial Statements – Interests in other entities – Interest in subsidiaries – Structure of the Group” of this annual report.

Descriptions of the relationship between the Group and its employees, clients and suppliers are set out in “Management Discussion and Analysis – Employees and Remuneration Policy” and “Report of the Board – Major Customers and Suppliers” of this annual report, respectively.

### Business Review

The business review on the Group is set out in the “Management Discussion and Analysis” of this annual report. The future development of the Group and the major risks and uncertainties that the Group may be exposed to are set out in “Management Discussion and Analysis – Business Outlook” of this annual report.

### Financial Highlights and Results

The operating results and summary of assets and liabilities of the Group for the year ended December 31, 2021 are set out in the “Financial Highlights” of this annual report. The Group’s financial results for the year ended December 31, 2021 are set out in the consolidated income statement of this annual report.

### Investor Relations

Please refer to the section headed “Corporate Governance Report – Communication with Shareholders and Investor Relations” of this annual report.

### Environmental Policies

The Group is conscious of its environmental protection obligations and actively seeks to implement eco-friendly technologies and solutions where feasible. With respect to medical waste management, the Group has engaged qualified third parties to arrange proper disposal for all of its healthcare facilities in accordance with applicable laws and regulations. Those applicable laws and regulations have no material impact on the business operation of the Group. Details of the environmental policies of the Company are set out in the 2021 Environmental, Social and Governance Report published by the Company on May 26, 2022, which can be accessed and downloaded at the website of the Company and HKEXnews website of the Hong Kong Stock Exchange.

## Report of the Board

### Compliance with Relevant Laws and Regulations

The Company continues to review its current systems and procedures, emphasizes and strives to comply with the PRC Company Law, the Hong Kong Listing Rules, the SFO, applicable Hong Kong Companies Ordinance, and other relevant laws and regulations which have a significant impact on the Company. The Company endeavors to safeguard its Shareholders' interests, enhance corporate governance and strengthen the functions of the Board of Directors.

Laws and regulations that have a significant impact on the operation of the Group include but are not limited to the Mental Health Law of the PRC (《中华人民共和国精神卫生法》), the Law of the People's Republic of China on the Promotion of Basic Medical and Health Care (《中华人民共和国基本医疗卫生与健康促进法》) (has taken effect on June 1, 2020), the Management Regulations of Medical Institutions (《医疗机构管理条例》) and the Rules for the Implementation of Management Regulations of Medical Institutions (《医疗机构管理条例实施细则》).

The operation of the Group has always complied with the abovementioned national and local laws and regulations. It upholds honesty and integrity and performs its social responsibility.

The Company and its employees have been exercising their best endeavours to strictly follow the applicable rules, laws and industry standards. The Directors are not aware of any breach of laws or regulations which have a significant impact on the Group in 2021 and as of the Latest Practicable Date.

### Permitted Indemnity Provision

For the year ended December 31, 2021, the Group has no permitted indemnity provision.

### Use of Proceeds from Initial Public Offering

The H Shares were listed on the Main Board of the Hong Kong Stock Exchange on November 20, 2015. The Company's net proceeds from the initial public offering amounted to approximately HK\$693.2 million (equivalent to RMB580.7 million) after deducting underwriting commissions and all related expenses. On March 30, 2017 and March 23, 2018, the Board considered and approved the resolutions regarding the change in the use of the net proceeds, respectively. The Company used all the proceeds according to the use of the proceeds disclosed in the Prospectus dated November 10, 2015 and considered and approved by the Board.

## Report of the Board

### Dividend

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

### Tax Reduction or Exemption

In accordance with the Enterprise Income Tax Law of the People's Republic of China (《中华人民共和国企业所得税法》) and its implementation regulations which came into effect on January 1, 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares not registered under the name of an individual Shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organizations or groups, shall be deemed as Shares held by non-resident enterprise Shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such Shareholders. If holders of H Shares intend to change their Shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H Shares as of the record date.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for the cash dividends to them with the PRC under the relevant tax agreement, the Company should withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of less than 10% with the PRC under the relevant tax agreement, the Company shall withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. In this case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant Shareholders submit the evidence required by the notice of the tax agreement to Computershare Hong Kong Investor Services Limited. The Company will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of over 10% but less than 20% with the PRC under the tax agreement, the Company shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which had an agreed tax rate of 20% with the PRC under the tax agreement, or which has not entered into any tax agreement with the PRC, or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

## Report of the Board

### Share Capital

Details of the movements in the share capital of the Company during the Reporting Period are set out in Note 5 to the Financial Statements – note (31) to the consolidated financial statements of this annual report.

### Reserves

Details of movements in the reserves of the Group during the Reporting Period are set out in the Consolidated Statement of Changes in Owners' Equity and Note 5 to the Financial Statements – notes (32), (34) and (35) to the consolidated financial statements of this annual report.

### Distributable Reserves

As of December 31, 2021, the distributable reserves of the Group were RMB247.9 million.

### Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in Note 5 to the Financial Statements – note (11) to the consolidated financial statements of this annual report.

### Major Customers and Suppliers

For the year ended December 31, 2021, the Group's largest customer and five largest customers aggregately contributed to 1.2% and 3.9%, respectively, of the Group's total revenue. For the year ended December 31, 2021, the Group's five largest customers contributed to less than 30% of the Group's total revenue for the year. The major customers of the Group are the patients of our owned hospitals. Due to the uniqueness of the business and high liquidity of patients of psychiatric specialty hospitals, our Company has no reliance on large customers.

For the year ended December 31, 2021, the total purchase of the Group's largest supplier and five largest suppliers aggregately accounted for 23.0% and 35.3%, respectively, of the Group's total purchases of pharmaceutical products, medical consumables and construction and renovation services.

None of the Directors, the Supervisors or any of their respective close associates (as defined under the Hong Kong Listing Rules), or any Shareholders, which to the knowledge of the Directors, owning more than 5% of the Company's issued share capital has any interests in the Group's five largest customers or suppliers for the year ended December 31, 2021.

### Securities Issuance

During the Reporting Period, the Group did not issue any securities.



## Report of the Board

### Supervisors

The Supervisors during the Reporting Period and up to the date of this annual report are:

Mr. SUN Fangjun (*Chairman*) (resigned on February 15, 2022)

Mr. XU Ning (*Chairman*) (appointed on February 19, 2022)

Ms. HUANG Jing 'ou (resigned on September 9, 2021)

Mr. XU Yongjiu (appointed on October 8, 2021)

Mr. XIE Tiefan

Mr. QIAN Chengliang

Mr. CHEN Jian (resigned on January 17, 2022)

### Business Review and Analysis of Key Indicators of Financial Performance

For business review and analysis of key indicators of financial performance of the Group for the year ended December 31, 2021, please refer to the sections of "Financial Highlights" and "Management Discussion and Analysis" in this annual report.

### Directors' and Supervisors' Interests in Transaction, Arrangement or Contracts of Significance

Save as disclosed in "Report of the Board – Connected Transaction" and "Notes to the Financial Statements – Related parties and related party transactions" of this annual report, no transaction, arrangement or contracts of significance to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries, was a party and in which a Director or a Supervisor, or any entity connected with any Director or Supervisor, had a material interest, whether directly or indirectly, subsisted as of December 31, 2021 or at any time during the Reporting Period.

### Controlling Shareholders' Interests in Contracts of Significance

Save as disclosed in "Report of the Board – Connected Transaction" and "Notes to the Financial Statements – Related parties and related party transactions" of this annual report, neither of the Controlling Shareholders or any of their subsidiaries has or had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

### Management Contracts

During the Reporting Period, the Company did not enter into any management contracts with respect to the entire business or the core business of the Company.

## Report of the Board

### Non-competition Agreement

Pursuant to the Non-competition Agreement, each of the Controlling Shareholders has agreed not to, and to procure that his/her respective close associate(s) (as appropriate) (other than the Group) not to, either directly or indirectly, compete with the Group's principal business (which is primarily to provide psychiatric specialty care through hospitals) and granted to the Group the option for new business opportunities, option for acquisitions and pre-emptive rights. During the period from the date of the Non-competition Agreement to December 31, 2021, the Company did not receive any Offer Notice (as defined under the section headed "Relationship with our Controlling Shareholders" in the Prospectus) from the Controlling Shareholders.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Non-competition Agreement for the year ended December 31, 2021 for disclosure in this annual report. The independent non-executive Directors have also reviewed the Controlling Shareholders' compliance with the Non-competition Agreement for the year ended December 31, 2021.

### Directors' and Chief Executives' Emoluments and Five Individuals with Highest Emoluments

Particulars of the Directors' and the chief executives' emoluments and five highest paid individuals for the year ended December 31, 2021 are set out in "Notes to the Financial Statements – Related parties and related party transactions of this annual report. The remuneration policy of the Company is set out in the section headed "Corporate Governance Report" of this annual report.

No Director has waived or has agreed to waive any emoluments during the Reporting Period.

### Directors' Interests in Competing Business

During the Reporting Period, none of the Directors or their respective associates (as defined under the Hong Kong Listing Rules) had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

### Directors', Supervisor's and Chief Executives' Interests in Securities

As of December 31, 2021, the interests and short positions of the Directors, the Supervisors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company under section 352 of the SFO, or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

## Report of the Board

Name	Class of Shares	Nature of Interest	Number of Shares	Total Number of Shares	Approximate	Approximate
					Percentage in the Company's Shares of the Same Class <sup>(1)</sup>	Percentage of the Company's Total Issued Share Capital <sup>(1)</sup>
Mr. GUAN Weili <sup>(2)</sup>	Domestic Shares	Beneficial owner	18,350,250(L)	22,144,750 (L)	40.07%	29.68%
		Interest of spouse	3,794,500(L)			
Ms. WANG Lianyue <sup>(2)</sup>	Domestic Shares	Beneficial owner	3,794,500(L)	22,144,750 (L)	40.07%	29.68%
		Interest of spouse	18,350,250(L)			
Ms. WANG Hongyue <sup>(3)</sup>	Domestic Shares	Beneficial owner	3,984,350 (L)	5,785,350 (L)	10.46%	7.76%
		Interest in a controlled corporation	1,801,000 (L)			
Mr. XU Yongjiu <sup>(4)</sup>	H Shares	Beneficial owner	309,000 (L)	309,000 (L)	1.60%	0.41%
	Domestic Shares	Interest in a controlled corporation	4,540,000 (L)	4,540,000 (L)	8.22%	6.09%

### Notes:

(L): Long position

- (1) The shareholding percentages are calculated on the basis of 55,260,000 Domestic Shares and 19,340,000 H Shares (an aggregate of 74,600,300 Shares) issued by the Company as at December 31, 2021.
- (2) Mr. GUAN Weili is the spouse of Ms. WANG Lianyue and therefore, Mr. GUAN Weili is deemed to be interested in the Domestic Shares held by Ms. WANG Lianyue, and Ms. WANG Lianyue is deemed to be interested in the Domestic Shares held by Mr. GUAN Weili by virtue of Part XV of the SFO.
- (3) Ms. WANG Hongyue is the general partner of Ningbo Xinshi Kangning Investment Management L.P. and Ningbo Enci Kangning Investment Management Partnership (Limited Partnership) and holds approximately 50.62% and 37.10%, respectively, in such management partnerships, both of which are limited partnerships. Therefore, by virtue of Part XV of the SFO, Ms. WANG Hongyue is deemed to be interested in all the Domestic Shares held by the above management partnerships in the Company.
- (4) Mr. XU Yongjiu holds 50% equity interest in Shanghai Jinxi Enterprise Management Center (Limited Partnership) (上海锦曦企业管理中心(有限合伙)) and Shanghai Jinxi Enterprise Management Center (Limited Partnership) (上海锦曦企业管理中心(有限合伙)) is a general partner of Wenzhou Jinning Equity Investment Partnership (Limited Partnership). Therefore, by virtue of Part XV of the SFO, Mr. XU Yongjiu is deemed to be interested in all the Domestic Shares held by the above partnerships in the Company.

Save as disclosed above, as at December 31, 2021, to the knowledge of the Board, none of the Directors, the Supervisors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, the Supervisors and the chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) or recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## Report of the Board

### Interests of Substantial Shareholders

As at December 31, 2021, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons/entities (other than the Directors, the Supervisors or chief executives of the Company) had an interest or short position which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class <sup>(4)</sup>	Approximate Percentage of the Company's Total Issued Share Capital <sup>(1)</sup>
Central Enterprises Rural Industry Investment Fund Co., Ltd. (• / † 8 Š Å * 8 ³ ? - p ... ƒ " © ! ) ("Central Enterprises Fund")	Domestic Shares	Beneficial owner	7,466,666(L)	13.51%	10.00%
Shanghai Jinxi Enterprise Management Center (Limited Partnership) (j - † 8 M # • ƒ ( ƒ " ¥ « )) <sup>(2)</sup>	Domestic Shares	Interest in a controlled corporation	4,540,000(L)	8.22%	6.09%
FAN Yin <sup>(2)</sup>	Domestic Shares	Interest in a controlled corporation	4,540,000(L)	8.22%	6.09%
SUN Jiarl <sup>(2)</sup>	Domestic Shares	Interest in a controlled corporation	4,540,000(L)	8.22%	6.09%
Shanghai Jinpu Jianfu Equity Investment Management Co., Ltd. (j - p Æ ³ M # ƒ " © ! ) <sup>(2)</sup>	Domestic Shares	Interest in a controlled corporation	4,540,000(L)	8.22%	6.09%
Wenzhou Jinning Equity Investment Partnership (Limited Partnership) (j È - ¹ p Æ ³ ¥ « † 8 ( ƒ " ¥ « )) ("Jinning Investment")	Domestic Shares	Beneficial owner	4,540,000(L)	8.22%	6.09%
XU Yi <sup>(3)</sup>	Domestic Shares	Interest of spouse	5,785,350(L)	10.47%	7.76%
Shanghai Tanying Investment L.P. (j å õ ³ ¥ « † 8 ( ƒ " ¥ « ))	Domestic Shares	Beneficial owner	4,519,003(L)	8.18%	6.06%

## Report of the Board

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Same Class <sup>(1)</sup>	Approximate Percentage of the Company's Total Issued Share Capital <sup>(1)</sup>
Shanghai Lejin Investment L.P. ( j € † ³ ¥ « † 8 ( Ɔ " ¥ « ) ) <sup>(4)</sup>	Domestic Shares	Interest in a controlled corporation	4,519,003(L)	8.18%	6.06%
LIN Lijun	Domestic Shares	Interest in a controlled corporation	6,506,309(L)	11.77%	8.72%
Shanghai Loyal Valley Investment Management Co., Limited ( j M Đ ³ M # Ɔ " @ ! ) (formally know as Shanghai Shenge Investment Management Co., Ltd) <sup>(5)</sup>	Domestic Shares	Interest in a controlled corporation	6,506,309(L)	11.77%	8.72%
Wind Information Co., Ltd. ( - { ' ' ' " p ... Ɔ " @ ! )	Domestic Shares	Interest in a controlled corporation	3,333,000(L)	6.03%	4.47%
Shanghai Hehuayuan Enterprise Management Center (Limited Partnership) ( j f € Ÿ † 8 M # • Đ € Ɔ " ¥ « • )	Domestic Shares	Interest in a controlled corporation	3,333,000(L)	6.03%	4.47%
Wind Impact Equity Investment (Jiaxing) Partnership (Limited Partnership) ( - { B Ɔ b p Æ ³ ( — 3 ) ¥ « † 8 ( Ɔ " ¥ « ) ) ("Wind Investment")	Domestic Shares	Beneficial owner	3,333,000(L)	6.03%	4.47%
Qingdao Jinshi Haorui Investment Co., Ltd. ( j ¥ - i 4 Š ° ³ Ɔ " @ ! )	Domestic Shares	Beneficial owner	2,780,000(L)	5.03%	3.73%
Jinshi Investment Co., Ltd. ( - j ³ Ɔ " @ ! ) <sup>(6)</sup>	Domestic Shares	Interest in a controlled corporation	2,780,000(L)	5.03%	3.73%
OrbiMed Advisors LLC	H Shares	Investment manager	1,454,000(L)	7.52%	1.95%
OrbiMed Capital LLC	H Shares	Investment manager	2,150,900(L)	11.12%	2.88%
OrbiMed Partners Master Fund Limited	H Shares	Beneficial owner	1,279,900(L)	6.62%	1.72%
OrbiMed Partners II, L.P.	H Shares	Beneficial owner	1,052,000(L)	5.44%	1.41%
UBS Group AG	H Shares	Interest in a controlled corporation	2,499,100(L)	12.92%	3.35%
ZOU Haili ( E )	H Shares	Beneficial owner	1,680,000(L)	8.69%	2.25%

## Report of the Board

### Notes:

(L): Long position

- (1) The shareholding percentages are calculated on the basis of 55,260,000 Domestic Shares and 19,340,300 H Shares (an aggregate of 74,600,300 Shares) issued by the Company as of December 31, 2021.
- (2) FAN Yin holds 50% equity interest in Shanghai Jinxi Enterprise Management Center (Limited Partnership) (上海锦曦企业管理中心(有限合伙)) and Shanghai Jinxi Enterprise Management Center (Limited Partnership) (上海锦曦企业管理中心(有限合伙)) is a general partner of Wenzhou Jinning Equity Investment Partnership (Limited Partnership) (温州锦宁股权投资合伙企业(有限合伙)). SUN Jian holds 33.94% equity interest in Wenzhou Jinning Equity Investment Partnership (Limited Partnership) (温州锦宁股权投资合伙企业(有限合伙)). Shanghai Jinpu Jianfu Equity Investment Management Co., Ltd. (上海锦浦建富股权投资管理有限公司) is a general partner of Wenzhou Jinning Equity Investment Partnership (Limited Partnership). Therefore, by virtue of Part XV of the SFO, FAN Yin, Shanghai Jinxi Enterprise Management Center (Limited Partnership) (上海锦曦企业管理中心(有限合伙)), SUN Jian and Shanghai Jinpu Jianfu Equity Investment Management Co., Ltd. (上海锦浦建富股权投资管理有限公司) were deemed to be interested in all the Domestic Shares held by Wenzhou Jinning Equity Investment Partnership (Limited Partnership) (温州锦宁股权投资合伙企业(有限合伙)) in the Company.
- (3) Mr. XU Yi is the spouse of Ms. WANG Hongyue, an executive Director, and therefore, Mr. XU Yi is deemed to be interested in the Domestic Shares held by Ms. WANG Hongyue by virtue of Part XV of the SFO.
- (4) Shanghai Lejin Investment L.P. (上海乐锦股权投资合伙企业(有限合伙)) holds 99.99% equity interest in Shanghai Tanying Investment L.P. (上海添映股权投资合伙企业(有限合伙)). Therefore, by virtue of Part XV of the SFO, Shanghai Lejin Investment L.P. (上海乐锦股权投资合伙企业(有限合伙)) is deemed to be interested in all the Domestic Shares held by Shanghai Tanying Investment L.P. (上海添映股权投资合伙企业(有限合伙)) in the Company.
- (5) Shanghai Loyal Valley Investment Management Co., Limited (上海忠诚谷投资管理有限公司)

## Report of the Board

### Directors' and Supervisors' Rights to Acquire Shares or Debt Securities

Save as the Equity Incentive Scheme, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, the Supervisors, or chief executives of the Company (including their spouses or children under 18 years of age) to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

### Connected Transaction

The Board confirms that, other than the connected transactions set out in this section, none of the related party transactions set out in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report constituted connected transactions or continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. All of the connected transactions or continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules are in compliance with the relevant disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

### Granting the Incentive Shares to Connected Persons

As disclosed in "Employees and Remuneration Policy" of this annual report, the proposed amendments to the Equity Incentive Scheme was considered and approved at the annual general meeting of the Company for the year 2020 which has been convened on June 18, 2021.

On June 18, 2021, 455,588 Incentive Shares were granted to 10 grantees at the grant price of RMB10.47 per Share. Among such grantees, (1) Ms. WANG Lianyue is a Director and general manager of the Company; (2) Ms. WANG Hongyue is the younger sister of Ms. WANG Lianyue and then a Director and the chief financial officer of the Company; (3) Mr. SUN Fangjun is then a Supervisor of the Company; (4) Mr. XIE Tiefan is a Supervisor of the Company; (5) Mr. XU Yi is the spouse of Ms. WANG Hongyue; (6) Ms. WANG Biyu is the niece of Ms. WANG Lianyue and Ms. WANG Hongyue; (7) Ms. XU Qunyan is the younger sister of Mr. XU Yi; (8) Mr. GUAN Weilu is the younger brother of Mr. GUAN Weili (the Chairman and an executive Director of the Company); (9) Mr. SUN Hongbo is the nephew of Ms. WANG Lianyue and Ms. WANG Hongyue; and (10) Ms. ZHANG Linghui is the sister-in-law of Mr. GUAN Weili. Each of them is a connected person under Chapter 14A of the Listing Rules. Therefore, the Proposed Grant to connected persons constitutes a non-exempt connected transaction of the Company.

The Board believes that the Proposed Grant will help further establish and optimize the Company's long-term incentive mechanism, attract and retain talent, fully mobilize the enthusiasm of the Company's Directors, Supervisors, senior management, middle management, and core technical (business) personnel and other persons who, in the opinion of the Board, shall be incentivized, effectively combine the interests of Shareholders, the interests of the Company and the personal interests of the core team, so as to ensure all parties will pay attention to the long-term development of the Company and enhance its operating efficiency.

Further details of the Equity Incentive Scheme, the proposed grant of Incentive Shares to the connected persons are set out in the Company's announcement dated April 16, 2021 and circular dated May 14, 2021.

## Report of the Board

### Acquisition of Equity Interest of Wenzhou Guoda Investment

On June 24, 2021, Zhejiang Kangning and Mr. GUAN Weili entered into the equity transfer agreement, pursuant to which Mr. GUAN Weili has conditionally agreed to acquire and Zhejiang Kangning has conditionally agreed to sell 75% equity interest ("Target Equity Interest") of Wenzhou Guoda Investment. The consideration for the transfer of the Target Equity Interest is RMB55.0 million. Upon completion of the Disposal, the Company will cease to own any interest in the Target Company, whereas the Target Company will cease to be a subsidiary of the Company and the financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Group upon completion.

The terms of the Equity Transfer Agreement are set out below:

#### *Date*

June 24, 2021

#### *Parties*

Zhejiang Kangning Hospital Management (Group) Co., Ltd (as the Vendor)

Mr. GUAN Weili (as the Purchaser)

Wenzhou Guoda Information Technology Company Limited (holding 25% equity interest in the Target Company)

Wenzhou Guoda Investment (as the Target Company)

### Consideration and payment arrangement

The consideration for such disposal is RMB55.0 million, which is determined after arm's length negotiation between the Vendor and the Purchaser with reference to the appraised value of the 75% equity interest in the Target Company as at May 31, 2021 amounting to RMB53.8 million as set out in the valuation report prepared by Zhejiang Huaming Certified Public Accountants Company Limited ( 浙江华明会计师事务所有限公司 ) (a professional and independent valuer in the PRC) using the asset-based approach. On the date of completion of the industrial and commercial registration modification procedures for the transfer of the Target Equity Interest, the Purchaser shall pay 30% of the consideration for the transfer of the Target Equity Interest in the amount of RMB16.5 million to the Vendor. The remaining 70% of the consideration for the transfer of the Target Equity Interest in the amount of RMB38.5 million shall be paid within 30 days after the completion of the industrial and commercial registration modification procedures.

### Completion arrangement

- (1) Within five (5) business days from the date of signing of the Equity Transfer Agreement, the parties to the agreement and the Target Company shall complete the industrial and commercial registration modification procedures for the transfer of the Target Equity Interest and the corresponding filing procedures for the articles of association of the Target Company and the change of directors and supervisors (if necessary).
- (2) The date of completion of the Target Equity Interest shall be the date on which the change of industrial and commercial registration modification in respect of the transfer of the Target Equity Interest is completed (the "Completion Date"). Since the Completion Date, the Target Equity Interest shall belong to the Purchaser, and all shareholder's rights enjoyed by the Vendor based on the Target Equity Interest shall be enjoyed by the Purchaser.

## Report of the Board

- (3) The parties to the Equity Transfer Agreement shall, upon the request of the Purchaser, produce all documents necessary for the completion of the industrial and commercial registration modification in respect of the Target Equity Interest.
- (4) The tax fees arising from the transfer of the Target Equity Interest shall be borne by the parties to the agreement according to law, whereas the reasonable expenses incurred due to the industrial and commercial registration modification for the transfer of the Target Equity Interest shall be borne by the Target Company.

### Settlement of creditor's rights and liabilities

As of the date of signing of the Equity Transfer Agreement, the Target Company has not settled the principal and interest of the borrowings of RMB13.2 million in aggregate owed to the Vendor. The Purchaser agreed to repay all the principal and interest of the liabilities to the Vendor on the date of completion of the industrial and commercial registration modification in respect of the Target Equity Interest.

### Reasons for and Benefits of the Disposal

To better seize the development opportunities brought by the rapid growth of the PRC economy, continuously enhance the core competitiveness and influence of the Company and maximize the interests of the shareholders, the Company is preparing for the listing of A Shares. Given that the PRC regulatory authorities do not support the domestic financing and listing of real estate companies (whose principal business is not real estate but is involved in real estate business), coupled with the latest relevant domestic regulatory policies, the Company intends to spin off the existing real estate business through such disposal to further optimize resource allocation and focus on the main business operation in order to successfully integrate domestic resources and proceed with financing and listing.

### Listing Rules Implications

The Purchaser Mr. GUAN Weili, being an executive Director and the Chairman of the Company, is a connected person of the Company under Chapter 14A of the Listing Rules and accordingly, the Disposal constitutes a connected transaction of the Company. As the highest applicable percentage ratio(s) in respect of the Equity Transfer Agreement and the transactions contemplated thereunder is/are more than 0.1% but less than 5%, the Equity Transfer Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

### Purchase, Sale or Redemption of Listed Securities

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

### Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles or the PRC Company Law which oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

## Report of the Board

### Bank Borrowings

Details of the bank borrowings of the Group as of December 31, 2021 are set out in Note 5 to the Financial Statements – notes (19) and (28) to the consolidated financial statements of this annual report.

### Asset Pledge

Details of the asset pledge of the Group as of December 31, 2021 are set out in Note 12 to the Financial Statements – Commitments and Contingencies of this annual report.

### Corporate Governance

The Board is of opinion that, save as disclosed in this report, the Company has complied with all code provisions and the recommended best practices under the CG Code throughout the Reporting Period. Principal corporate governance practices adopted by the Company are set out in the section headed Corporate Governance Report of this annual report.

### Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the Latest Practicable Date, the Company had maintained the minimum public float of the issued Shares as required under the Hong Kong Listing Rules.

### Important Events after the Reporting Period

The important events after the Reporting Period are set out in Notes to the Financial Statements – Events after the balance sheet date of this annual report.

### Audit Committee

The Audit Committee of the Board of Directors of the Company has reviewed the Company's and the Group's 2021 annual results, and the audited consolidated financial statements for 2021 prepared in accordance with the China Accounting Standards for Business Enterprises.

### Auditor

The financial statements for the year have been audited by BDO China Shu Lun Pan Certified Public Accountants LLP (“BDO”).

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



## Report of the Supervisory Committee

To the Shareholders:

In 2021, all members of the Supervisory Committee, in accordance with the PRC Company Law, the Articles, the rules of procedure of the Supervisory Committee and other relevant provisions, duly performed their supervisory duties and independently exercised their powers according to law with conscientiousness and diligence, attended the Board meetings and general meetings, and effectively supervised the standardization and effectiveness of corporate governance, the consideration and implementation of major decisions and important operational activities of the Company, and the diligent performance of the Directors and senior management personnel of the Company, thereby effectively safeguarding the legitimate rights and interests of all Shareholders.

During the Reporting Period, the Supervisory Committee prudently reviewed the Company's operation and development plans, provided reasonable suggestions and advice to the Board, and strictly and effectively monitored and supervised the Company's management in formulating major policies and decisions to ensure they had complied with the relevant laws, regulations and the Articles and were in the interests of the Shareholders.

The Supervisory Committee considers that the decision-making process of the Company during the year was legal and effective, the resolutions of the general meetings and the Board were well implemented, and the existing internal control system complies with the requirements of national laws and regulations.

In 2022, all members of the Supervisory Committee will continue to strengthen their self-learning, improve their supervisory capability and level, and continue to earnestly perform the functions of the Supervisory Committee with a sense of responsibility towards all the Shareholders, so as to safeguard the legitimate rights and interests of the Company and the Shareholders, thereby effectively playing the roles in regulating the operation, improving and enhancing the level of governance of the Company.

For and on behalf of the Supervisory Committee

XU Ning

*Chairman*

Zhejiang, the PRC

November 10, 2022

## Corporate Governance Report

The Company recognizes the value and importance of improving standard of corporate governance and is committed to such objective. The Company has applied the principles as set out in the CG Code as its own code of corporate governance. The Directors are of the opinion that, save as disclosed in this report, the Company had complied with all the code provisions set out in the CG Code during the Reporting Period and up to the date of this annual report. The Company will continue to review and enhance its corporate governance practice to ensure compliance with the CG Code.

### The Board

#### Board Composition

As at the Latest Practicable Date, the Board comprises seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors. The brief biographical details of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" of this annual report. The Board is responsible for the overall management and supervision of the Company's operation as well as the formulation of overall business strategies. The terms of office of the third session of the Board shall be three years.

As at the Latest Practicable Date, the Board had met the requirements of Rules 3.10 and 3.10A of the Hong Kong Listing Rules, which requires the Company to appoint at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications or the expertise in accounting or relevant financial management and requires the number of independent non-executive Directors to represent at least one-third members of the Board.

The Company has received annual confirmation of independence from each independent non-executive Director pursuant to the requirements under the Hong Kong Listing Rules. The Company considers that each independent non-executive Director to be independent in accordance with the independence guidelines as set out in Rule 3.13 of the Hong Kong Listing Rules.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professional skills to the Board, fulfilling Board's function in an efficient and effective manner. Independent non-executive Directors are invited to serve on the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy and Risk Management Committee.

The CG Code requires the Directors to disclose to the Company the number and nature of offices held in public companies or organizations and other significant commitments as well as their capacities and the time involved. The Directors have agreed to disclose to the Company their other commitments in a timely manner.



## Corporate Governance Report

### Role and Function of the Senior Management

The senior management is the execution body of the Company and is accountable to the Board. As of the Latest Practicable Date, the senior management of the Company comprises seven members. Details of the composition and biographies of the senior management are set out in Directors, Supervisors and Senior Management of this annual report. There is a strict separation of powers between the Board and the senior management. The senior management is in charge of operation management and the decision making according to its terms of reference as authorized by the Board. The Company regularly refines such authorization in accordance with its needs. The Board, in turn, conducts performance appraisals on senior management and its members in accordance with the Company's evaluation requirements, the results of which form the basis of their remuneration and performance arrangements.

### Changes of Directors, Supervisors and Chief Executives

## Corporate Governance Report

### Induction of and Continuous Professional Development for Directors

During the Reporting Period, the Company focused on the continuing professional development of the Directors, organizing training programs for them and encouraging them to take part in. All members of the Board continued to familiarize themselves with various regulatory information and the latest regulatory requirements, including the laws and regulations and regulatory documents in relation to corporate governance and the Hong Kong Listing Rules. They also updated their knowledge and skills, and improved their abilities to perform their duties through various methods, to ensure that they can contribute to the Board in a well-informed manner based on its actual needs. The major trainings attended by the Directors are as follows:

During the Reporting Period, all Directors of the Company, namely Mr. GUAN Weili, Ms. WANG Lianyue, Ms. WANG Hongyue, Mr. QIN Hao, Mr. LI Changhao, Mr. YANG Yang (resigned), Mr. LIN Lijun (resigned), Mr. ZHAO Xudong, Ms. ZHONG Wentang and Mr. LIU Ning, had read through a number of written materials with regard to Director's duties and responsibilities.

### Compliance with the Model Code

The Company has adopted the Model Code as a code of conduct of the Company for its Directors and Supervisors' securities transactions. Having made specific enquiry of all Directors and Supervisors, the Directors and Supervisors have complied with the requirements set out in the Model Code during the Reporting Period. The Company minimizes the scope of insiders before publication of such inside information. Any employees who are, or likely to be, in possession of unpublished inside information in relation to the Company or the Shares are prohibited from dealing in the Shares during the black-out period. The Company will register relevant information of such employees, including but not limited to the inside information, personal identity, securities account, the department such employees serve and their responsibilities, for Company's internal check and relevant regulatory authorities' inquiries. If such employees violate relevant laws and regulations, the Company will hand out punishments or turn them in to judicial authorities in accordance with the seriousness of the case.

### Corporate Governance

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

## Corporate Governance Report

Save as disclosed above, the Board is of the opinion that the Company has complied with all code provisions and the recommended best practices under the CG Code throughout the Reporting Period.

### Service Contracts of the Directors and Supervisors

Each of the Directors (including non-executive Directors) and Supervisors has entered into a service contract with our Company for a term of which is three years.

The service contracts may be renewed in accordance with the Articles and applicable laws, rules and regulations. None of the Directors or the Supervisors has entered or has proposed to enter into any service contracts with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

### Accounting Standards

The Company has been applying the China Accounting Standards for Business Enterprises since the financial year of 2017, and has complied with the disclosure requirements in the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the “Companies Ordinance”).

### Accounting Policies

#### Accounting Policies

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

The financial statements are prepared on a going concern basis.

The new Hong Kong Companies Ordinance became effective in March 3, 2014. Certain related matters in the financial statements have been disclosed according to requirements of the Hong Kong Companies Ordinance.

#### Changes of Significant Accounting Policies

The changes of significant accounting policies are set out in Note 3 to the Financial Statements – Changes in significant accounting policies’ of this annual report.

## Corporate Governance Report

### Attendance at Board Meetings and General Meetings

The Company has adopted the practice of holding Board meetings for at least four times a year at approximately quarterly intervals pursuant to provision A.1.1 (rearranged as C.5.1 since January 1, 2022) of the CG Code. Notices of all regular Board meetings are given not less than fourteen days prior to the meetings to provide all Directors with an opportunity to attend pursuant to provision A.1.3 (rearranged as C.5.3 since January 1, 2022) of the CG Code and relevant matters are included in the agenda of such meeting.

During the Reporting Period, the Company held 15 Board meetings and the attendance of the Directors at the Board meetings was as follows:

Name of Directors	Number of Board meetings convened/attended
Executive Directors	
Mr. GUAN Weili ( <i>Chairman</i> )	15/15
Ms. WANG Lianyue	15/15
Ms. WANG Hongyue (resigned on September 1, 2022)	15/15
Non-executive Directors	
Mr. YANG Yang (resigned on September 9, 2021)	10/10
Mr. LIN Lijun (resigned on April 30, 2021)	3/3
Mr. QIN Hao (appointed on June 18, 2021)	10/10
Mr. LI Changhao (appointed on October 8, 2021)	4/4
Independent non-executive Directors	
Mr. ZHAO Xudong	15/15
Ms. ZHONG Wentang	15/15
Mr. LIU Ning	15/15

All Directors are provided with the agenda and relevant information in advance before the meeting. They have access to the senior management members and the joint company secretaries of the Company at all time and, upon reasonable request, can seek independent professional advice at the Company's expense.

Minutes of the meetings are kept by the secretary to the Board with copies circulated to all Directors for reference and record. Minutes of the Board meetings and committee meetings sufficiently record the details of the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date when a meeting is held. The minutes of the Board meetings are open to inspection by Directors.

## Corporate Governance Report

During the Reporting Period, two general meetings were held and the attendance of the Directors at the general meetings was as follows:

Name of Directors	Number of general meetings convened/attended
Executive Directors	
Mr. GUAN Weili ( <i>Chairman</i> )	2/2
Ms. WANG Lianyue	2/2
Ms. WANG Hongyue (resigned on September 1, 2022)	2/2
Non-executive Directors	
Mr. YANG Yang (resigned on September 9, 2021)	1/1
Mr. LIN Lijun (resigned on April 30, 2021)	0/0
Mr. QIN Hao (appointed on June 18, 2021)	1/1
Mr. LI Changhao (appointed on October 8, 2021)	1/1
Independent non-executive Directors	
Mr. ZHAO Xudong	2/1
Ms. ZHONG Wentang	2/2
Mr. LIU Ning	2/2

### Board Committees

The Board has established four committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy and Risk Management Committee, to handle particular affairs of the Board and the Company. All Board committees of the Company are established with defined written terms of reference which have been uploaded to the website of the Hong Kong Stock Exchange and that of the Company, and are provided with sufficient resources to discharge their duties.

## Corporate Governance Report

### Audit Committee

The Company established the Audit Committee in compliance with Rule 3.21 and Rule 3.22 of the Hong Kong Listing Rules, and its written terms of reference complies with the CG Code and the duties and functions delegated to the Audit Committee by the Board. The primary responsibilities of the Audit Committee are reviewing and supervising the Company's financial reporting procedures, including proposing to appoint or change the external auditor; supervising the Company's internal control system and its implementation; the communication between the internal auditor and external auditor; auditing financial information and its disclosure; reviewing the Company's internal control system and auditing significant connected transactions; nominating the heads of the internal audit department; and dealing with other matters authorized by the Board.

As of the date of this report, the Audit Committee consists of two independent non-executive Directors, Ms. ZHONG Wentang (chairman of the Audit Committee) and Mr. LIU Ning, and one non-executive Director, Mr. LI Changhao. Five meetings of the Audit Committee were held during the Reporting Period to, among other matters, review the annual results for the year 2020 and interim results for the year 2021 of the Group.

The attendance of the Directors at the meetings of the Audit Committee held during the Reporting Period was as follows:

Directors	Number of meetings convened/attended
Ms. ZHONG Wentang ( <i>Chairman</i> )	5/5
Mr. LIU Ning	5/5
Mr. YANG Yang (resigned on September 9, 2021)	3/3
Mr. LI Changhao (appointed on October 8, 2021)	2/2

### Nomination Committee

The Company has established the Nomination Committee with its written terms of reference complies with the requirements of the CG Code and the duties and functions delegated to the Nomination Committee by the Board. The primary responsibilities of the Nomination Committee are preparing the procedures and criteria for determining the candidates for Directors and the senior management of the Company and conducting preliminary reviews of their qualifications and credentials, including offering the Board advice on its size and composition on the basis of the Company's operating results, assets and shareholding structure; reviewing the procedures and criteria for determining the candidates for Directors and the general manager of the Company and making recommendations to the Board; looking for qualified candidates for Directors and general manager; reviewing and making recommendations on the candidates for the Directors and general manager; reviewing and making recommendations on the candidates for other senior management such as the vice general managers, secretary to the Board and chief accountant which needs to be resolved by the Board; and dealing with other matters authorized by the Board.

## Corporate Governance Report

According to the nomination policy for Directors, the Nomination Committee shall submit recommendations and relevant materials of the directorial candidate(s) to the Board for consideration, and the Board will decide whether to propose such candidate(s) to the general meeting for election. Nomination by the Nomination Committee shall be based on merit and having due regard for the benefits of diversity of the Board. The ultimate decision will be based on merit and contribution that the selected candidate(s) will bring to the Company's development.

During the Reporting Period, the Company re-elected the members of the Board, for which the Nomination Committee actively performed its duties. With the joint efforts of all parties, the re-election of members of the Board was successfully completed.

As of the date of this report, the Nomination Committee consists of two independent non-executive Directors, Mr. LIU Ning (chairman of the Nomination Committee), Mr. ZHAO Xudong, and one executive Director, Mr. GUAN Weili. Three meetings of the Nomination Committee were held during the Reporting Period to, among other matters, review the independence of the independent non-executive Directors and evaluate of the structures of committees under the Board.

The attendance of the Directors at the meetings of the Nomination Committee held during the Reporting Period was as follows:

	Number of meetings convened/attended
Directors	
Mr. LIU Ning ( <i>Chairman</i> )	3/3
Mr. GUAN Weili	3/3
Mr. ZHAO Xudong	3/3

The Board adopts a board diversity policy and has discussed all measurable objectives set for its implementation. Please refer to section "Corporate Governance Report – Board Diversity Policy" of this annual report for more details.

## Remuneration Committee

The Company established the Remuneration Committee with its written terms of reference in compliance with the CG Code and the duties and functions delegated to the Remuneration Committee by the Board. The primary responsibilities of the Remuneration Committee are formulating the criteria for and conducting assessment on the Directors and senior management as well as determining and reviewing the remuneration policies and plans for the Directors and senior management, including formulating remuneration plans and proposals in accordance with the terms of reference of the Directors and senior management and the importance of their positions as well as the remuneration benchmarks for the relevant positions in other comparable companies; the remuneration plans and proposals include but not limited to criteria, procedures and main assessment system for performance assessment, main proposals and regulations on reward and punishment; reviewing the performance of the Directors and senior management and conducting annual assessment on their performance and results; supervising the implementation of the remuneration policies of the Company; and dealing with other matters authorized by the Board.

## Corporate Governance Report

As of the date of this report, the Remuneration Committee comprises three independent non-executive Directors, Mr. ZHAO Xudong (chairman of the Remuneration Committee), Ms. ZHONG Wentang and Mr. LIU Ning. The Remuneration Committee has adopted the second model described in paragraph B.1.2 (c) (rearranged as E.1.2(c) since January 1, 2022) under Appendix 14 to the Hong Kong Listing Rules (i.e. make recommendation to the Board on the remuneration packages of individual executive Directors and senior management). One meeting of the Remuneration Committee was held during the Reporting Period to, among other matters, review the report of the general manager of the Company for the year 2020 and appraisal programs for the senior management for the year 2021.

The attendance of the Directors at the meeting of the Remuneration Committee held during the Reporting Period was as follows:

Directors	Number of meetings convened/attended
Mr. ZHAO Xudong ( <i>Chairman</i> )	1/1
Ms. ZHONG Wentang	1/1
Mr. LIU Ning	1/1

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by aligning their remuneration with their individual performance. The remuneration package includes basic salary, performance and/or discretionary bonus and other benefits. The remuneration of non-executive Directors and independent non-executive Directors mainly includes the Directors' fee which is determined by reference to their duties and responsibilities by the Board.

The emoluments of each Director for the year ended December 31, 2021 are set out in Notes to the Financial Statements – Related parties and related party transactions of this annual report.

## Corporate Governance Report

### Strategy and Risk Management Committee

The Company has established the Strategy and Risk Management Committee with its written terms of reference in compliance with the duties and functions delegated to the Strategy and Risk Management Committee by the Board. The primary responsibilities of the Strategy and Risk Management Committee include reviewing and making suggestions on the Company's long-term strategic plan and significant investment decisions; reviewing the Company's risk management policies and standards; and supervising and monitoring the Company's exposure to legal risks.

As of the date of this report, the Strategy and Risk Management Committee consists of one executive Director, Mr. GUAN Weili (chairman of the Strategy and Risk Management Committee), one non-executive Director, Mr. QIN Hao, and one independent non-executive Director, Ms. ZHONG Wentang. One meeting of the Strategy and Risk Management Committee was held during the Reporting Period to, among other things, review the report on internal control and risk management of the Group for the year 2020 and make recommendations to the Board. The Strategy and Risk Management Committee has conducted an annual review regarding internal controls and confirmed the effectiveness of the Group's internal control system in the internal control and risk management report.

The attendance of the Directors at the meeting of the Strategy and Risk Management Committee held during the Reporting Period was as follows:

Directors	Number of meetings convened/attended
Mr. GUAN Weili ( <i>Chairman</i> )	1/1
Ms. ZHONG Wentang	1/1
Mr. QIN Hao (appointed on June 18, 2021)	0/0
Mr. LIN Lijun (resigned on April 30, 2021)	1/1

## Corporate Governance Report

### Board Diversity Policy

The Board has adopted a Board diversity policy and discussed all measurable objectives set for its implementation. The Company recognizes and embraces the benefits of having a diverse Board with a view to enhancing its effectiveness and achieving a high standard of corporate governance. It endeavors to ensure that the Board achieves a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The election of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision of all Board appointments will be based on the capability of the selected candidate and his or her potential contributions to the Board in the future. A summary is set out in the table below:

#### The Current Composition of the Board

Age	Gender	Years of service as Director
30 – 49 years (3 persons)	Female (28.6%)	1 – 5 years (5 persons)
50 – 59 years (3 persons)		
60 years and above (1 person)	Male (71.4%)	6 – 10 years (2 persons)

### Corporate Governance Functions

The Board is responsible for performing the corporate governance duties, including but not limited to:

- (a) to review the Company's compliance with the CG Code and disclosure in the corporate governance report;
- (b) to develop and review the Company's policies and practices of corporate governance;
- (c) to develop, review and monitor the code of conduct applicable to Directors and employees;
- (d) to review and monitor the training and continuous professional development of Directors, Supervisors and senior management; and
- (e) to review and monitor the Company's policies and practices on the compliance with legal and regulatory requirements.

During the Reporting Period, the Board, through its special committees, performed the following corporate governance functions: (1) modified the Articles in accordance with regulatory requirements; (2) enhanced the training for and the professional development of Directors and senior management; (3) reviewed the code of conduct for Directors, Supervisors and employees; (4) continuously assessed and optimized corporate governance and performed their duties in strict compliance with all of the requirements of corporate governance; and (5) reviewed the corporate governance report.

## Corporate Governance Report

### Directors' and Auditor's Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended December 31, 2021, which truthfully and objectively reflected the status of the Company and the Group and of the Group's results and cash flows. The Directors also acknowledge their responsibilities are to ensure that the consolidated financial statements of the Group are published in a timely manner. The management of the Company has provided to the Board the necessary explanation and information so as to enable the Board to carry out an informed assessment of the Company's consolidated financial statements that are submitted to the Board for approval. The Company provides all members of the Board with the latest materials in relation to the Company's results, status and prospects.

The Directors were not aware of any material uncertainties relating to any events or conditions which may cast a significant influence upon the Group's ability to continue as a going concern.

The statement prepared by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements is set out in the Auditor's Report of this annual report.

### Risk Management and Internal Control

The Board is responsible for the risk management and internal control systems and reviews their effectiveness on an ongoing basis. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failing to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company has a clearly defined management structure and process in place with specified terms of reference and responsibilities to prevent unauthorized use or disposal of assets, maintain proper accounting records for the provision of reliable financial information for internal use or for publications and the compliance of applicable laws, rules and regulations. An internal audit department has been established by the Company to perform regular financial and operational reviews and recommend actions needed to the relevant management. The internal audit department's network is to ensure the



# Corporate Governance Report

## Joint Company Secretaries

During the Reporting Period, Ms. NG Wing Shan was one of the joint company secretaries of the Company. Ms. NG's primary contact person at the Company was Mr. WANG Jian, the secretary to the Board and the other joint company secretary.

During the Reporting Period, Ms. NG undertook not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. Mr. WANG attended relevant training relating to the roles, functions and duties of directors of a listed company in Hong Kong and was from time to time been updated by and received training materials from the external lawyers during the Reporting Period, he also undertook not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. He will continue to attend relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules for the year ended December 31, 2022.

On July 12, 2022, Ms. NG Wing Shan resigned as the joint company secretary of the Company, and Mr. WONG Wai Chiu, an employee of an external service provider, SWCS Corporate Services Group (Hong Kong) Limited, replaced her as the joint company secretary of the Company. The main contact person of Mr. WONG Wai Chiu in the Company is Mr. Wang Jian.

## Communication with Shareholders and Investor Relations

The Board believes that effective communication with investors is essential to build investors' confidence and attract new investors. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables investors to make the most informed investment decision.

The general meetings of the Company provide an important channel for communications between the Board and the Shareholders. Chairman of the Board, as well as chairmen of the four Board committees or, in their absence, other members of the respective committees and where applicable, the independent Board committee, will be available to answer questions at the general meetings.

During the Reporting Period, two general meetings were held by the Company. Published documents together with the latest corporate information and news are available for inspection on the Company's website at [www.knhosp.cn](http://www.knhosp.cn). Investors can also communicate with the Company through email at [ir@knhosp.cn](mailto:ir@knhosp.cn).

## Shareholders' Rights

### Procedures for Shareholder(s) to Convene an Extraordinary General Meeting ("EGM")

Shareholders requesting the convening of an EGM shall proceed in accordance with the procedures set forth below:

Shareholders, individually or jointly holding over 10% of the Shares with voting rights at the proposed meeting, have the right to request the Board to convene an EGM or a class meeting in writing. According to laws, administrative regulations and the Articles, the Board shall give written feedbacks to agree or disagree to convene an EGM or a class meeting within ten days after receiving such request.

## Corporate Governance Report

If the Board agrees to convene an EGM or a class meeting, a meeting notice shall be published within five days after the Board makes such a resolution. Changes to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Board disagrees to convene an EGM or a class meeting or fails to give written feedbacks within ten days after receiving such request, then Shareholders individually or jointly holding over 10% of the Shares have the right to request the Supervisory Committee to convene an EGM or a class meeting in writing.

If the Supervisory Committee agrees to convene an EGM or a class meeting, a meeting notice shall be published within five days after receiving such request. Changes to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Supervisory Committee fails to publish the notice of an EGM within the specified period, it shall be deemed that the Supervisory Committee does not convene or preside over a general meeting. Shareholders who individually or jointly hold 10% or more of the Shares for not less than 90 consecutive days may convene and preside over an EGM by themselves. Necessary expenses of the general meeting held by the Supervisory Committee or Shareholders themselves shall be borne by the Company.

### Procedures for Shareholder(s) to Put Forward Proposals at a General Meeting

When a general meeting is convened by the Company, the Board, Supervisory Committee or Shareholders who individually or collectively hold more than 3% of the Shares shall be entitled to put forward proposals to the Company.

Shareholders who individually or collectively hold more than 3% of the Shares may submit ad hoc proposals in writing to the convener within 10 days before the convening of an EGM. The convener shall issue a supplemental notice of the general meeting within 2 days upon receipt of the proposals and announce the contents of the ad hoc proposals. The contact details for the submission of proposals are as follows:

Address:

No.1 Shengjin Road

Huanglong Residential District

Wenzhou, Zhejiang

the PRC

Fax: (86) 577 8878 9117

Email: ir@knhosp.cn

## Corporate Governance Report

### Procedures for Directing Shareholder's Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the secretary to the Board. The contact details are as follows:

Address:

No.1 Shengjin Road

Huanglong Residential District

Wenzhou, Zhejiang

the PRC

Fax: (86) 577 8878 9117

Email: ir@knhosp.cn

Shareholders may also make enquiries with the Board at the general meetings of the Company.

### Change in Constitutional Documents

During the Reporting Period, the Articles was amended once, and the relevant proposal was considered and approved at the 2021 first extraordinary general meeting by way of a special resolution on October 8, 2021. In view of the changes of actual shareholding of the Company's domestic Shareholders, the Board has put forward the proposal. The revised Articles became effective from October 8, 2021 after the consideration and approval at the general meeting, and has been published on the websites of the Hong Kong Stock Exchange and the Company. For details, please refer to the Company announcements dated September 16, 2021 and October 8, 2021.

## Corporate Governance Report

### Dividend Policy

The Company has formulated its dividend policy. Where the Company distributes its after-tax profits of the current year, it shall allocate 10% of the profits as the Company's statutory common reserve. The Company may make no more allocation should the accumulative balance of the Company's statutory common reserve account for more than 50% of the Company's registered capital. Should the accumulative balance of the Company's statutory common reserve be insufficient to make up for the losses of the Company of the previous year, the current year profits shall first be used for making up such losses before the statutory common reserve is allocated according to the provisions of the preceding paragraph. After the Company has allocated the statutory common reserve from the after-tax profits, it may allocate a discretionary common reserve from the after-tax profits, upon a resolution being made by the general meeting. After the Company has made up for the losses and has allocated statutory common reserve, it shall distribute the remaining profits to the shareholders based on their shareholding ratios, except for distribution made not based on the shareholding ratios as provided in the Articles. Should the general meeting distribute the profits to the shareholders before the losses has been made up and the statutory common reserves has been allocated, in violation of the provisions of the preceding paragraph, the profits thus distributed in violation of such provisions must be returned to the Company. No profit shall be distributed in respect of the shares of the Company being held by the Company.

The Company may distribute dividends in one of the following forms (or in more than two forms simultaneously):

- (1) cash;
- (2) share;
- (3) other methods permitted by laws, administrative regulations, departmental rules and regulation, and the regulatory rules of the place(s) of listing.

The Company shall pay cash dividends and other payments in RMB to domestic Shareholders. Such payments made by the Company to holders of foreign shares shall be denominated and declared in RMB and paid in HKD. Such HKD required for the Company's payment of cash dividends and other payments to the holders of foreign shares shall be handled pursuant to the relevant provisions of the administration of foreign exchange of the State.

The Board shall be authorized by way of an ordinary resolution passed by the general meeting to implement the dividend distribution of the Company.

## Directors, Supervisors and Senior Management

### Directors

#### Executive Directors

Mr. GUAN Weili ( 关伟力 ), aged 53, is chairman of the Board and an executive Director. He is primarily responsible for the overall business operation and strategic planning of the Company. He founded the Company in February 1996 and became an executive Director since then. Mr. Guan was appointed as chairman of the Board and an executive Director in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, Mr. Guan served as a clinician at Wenzhou Mental Hospital ( 温州精神病院 ), a local hospital in Wenzhou, from August 1987 to December 1993, where he was primarily responsible for the medical treatment of psychiatric patients. Mr. Guan graduated from Wenzhou Medical University ( 温州医科大学 ) (previously known as Wenzhou Medical College ( 温州医学院 )) in Wenzhou in August 1987, majoring in medical assistance. Mr. Guan obtained his senior business operator certificate from Wenzhou Municipal Bureau of Personnel ( 温州市人事局 ) in December 2007. Mr. Guan is the spouse of Ms. WANG Lianyue and the brother-in-law of Ms. WANG Hongyue and Mr. XU Yi.

Ms. WANG Lianyue ( 王莲月 ), aged 53, is our executive Director and general manager. She is primarily responsible for the overall hospital operation and business development of the Company. She joined the Company in January 1998 and has served as our general manager since September 2011 and our executive Director since April 2013. Ms. Wang was appointed as our executive Director again in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from August 1988 to December 1997, she was a nurse at Wenzhou Mental Hospital ( 温州精神病院 ), where she was primarily responsible for general patient care. Ms. Wang received two associate degrees from Wenzhou Medical University ( 温州医科大学 ) (previously known as Wenzhou Medical College ( 温州医学院 )) in Wenzhou in June 2004 and the Party School of Wenzhou Municipal Committee of the Communist Party of China ( 温州市委党校 ) in Wenzhou in June 2002, where she majored in nursing and economic administration respectively. She graduated from Online Education College of Xi'an Jiaotong University ( 西安交通大学网络教育学院 ), through long-distance education, with a bachelor's degree in law in July 2007. She also completed part-time hospital management courses at the China Europe International Business School ( 中欧国际工商学院 ) in Shanghai in September 2006. She was accredited as secondary psychological consultant ( 二级心理咨询师 ) by the Ministry of Human Resources and Social Security of China ( 人力资源和社会保障部 ) in December 2004. Ms. Wang is the spouse of Mr. GUAN Weili, the sister of Ms. WANG Hongyue and the sister-in-law of Mr. XU Yi.

## Directors, Supervisors and Senior Management

### Non-executive Directors

Mr. QIN Hao ( 秦昊 ), aged 31, joined the Group in June 2021. He joined Shanghai Loyal Valley Investment Management Co., Limited ( 上海洛雅利谷投资管理有限公司 ), a private equity investment company mainly invests in the fields of new consumption, healthcare and advanced manufacturing, in June 2017. He currently serves as a senior investment manager and is mainly responsible for the investment in pharmaceutical and healthcare industry.

Mr. Qin graduated from Peking University in June 2014 with a bachelor's degree in medicine. He graduated from Fudan University in June 2017 with a master's degree in finance.

Mr. LI Changhao ( 李畅昊 ), aged 32, joined the Group in October 2021. He served as the investment manager of SDIC Chuangyi Industry Fund Management Co., Ltd. ( 上海申通国际股权投资基金管理有限公司 ) from May 2014 to April 2019, and since May 2019, he has served as the vice president of the investment team of SDIC Chuangyi Industry Fund Management Co., Ltd. ( 上海申通国际股权投资基金管理有限公司 ), mainly responsible for the investment in private equity projects. He has served as a supervisor of Yunnan Aluminum Co., Ltd. ( 云南铝业股份有限公司 ), a company listed on the Shenzhen Stock Exchange (stock code: 000807.SZ) and engaged in bauxite mining, alumina production, aluminum smelting, aluminum processing and production of carbon used in aluminum, since January 2021.

Mr. Li graduated from Beijing University of Posts and Telecommunications with a bachelor's degree in e-commerce and law in September 2012. He graduated from Queen Mary University of London with a master's degree in marketing in December 2013. Mr. Li was accredited as a chartered financial analyst (CFA) by the Chartered Financial Analyst Institute in August 2017, an intermediate analyst by the Ministry of Human Resources and Social Security of the People's Republic of China in December 2017, and a certified financial risk manager (FRM) by the Global Association Risk Professionals in August 2018.

## Directors, Supervisors and Senior Management

### Independent Non-executive Directors

Mr. ZHAO Xudong (赵旭东), aged 60, joined the Group in June 2020. He has been serving as a director at the Research Institution of Humanistic Medicine and Behavioral Medicine, School of Medicine, Tongji University (同济大学人文与行为医学研究所) since January 2011, mainly responsible for teaching and scientific research. Since June 2015, he has been serving as a director at the Mental Health Center Affiliated to Tongji University (Preparation), mainly responsible for transformation, development and construction planning for the hospital, and research teaching. Since July 2004, he has been serving as a chief physician and department leader in the Department of Psychosomatic Medicine, Shanghai East Hospital Affiliated Tongji University (同济大学附属上海东医院), mainly responsible for clinical diagnosis and teaching. Since September 2013, he has been serving as a director in Institute of Philosophy and Psychology, School of Humanity, Tongji University, mainly responsible for providing graduate students with guidance. Since June 2019, he has been serving as a director in Chinese-Deutsches Institute of Mental Health, School of Medicine, Tongji University, mainly responsible for academic cooperation and exchange between China and Germany. From December 2000 to June 2004, he served as the president of the First Affiliated Hospital of Kunming Medical University, mainly responsible for the comprehensive management of the legal representative for the hospital. From January 2004 to April 2005, he served as an executive vice president in School of Medicine, Tongji University, mainly responsible for administration. Since August 2011, he has been serving as a vice chairman in the World Council of Psychotherapy (世界心理治疗师协会). Since May 2016, he has been serving as an executive director in Urban Mental Health Branch, World Psychiatric Association (世界精神病学协会). Since December 2019, he has been serving as a director in World Association of Cultural Psychiatry (世界文化精神病学协会). Since April 2014, he has been serving as a Chinese honorary chairman in German-Chinese Academy of Psychotherapy (德中心理治疗学会). Since May 2019, he has been serving as a vice chairman in Chinese Association for Mental Health (中国心理卫生协会) and the honorary director in the Professional Committee of Psychotherapy and Psychological Consultation (中国心理治疗与心理咨询专业委员会). Since September 2014, he has been serving as a deputy director in Psychosomatic Medicine Branch, Chinese Medical Association (中华医学会心身医学分会). Since November 2019, he has been serving as a deputy director in Psychosomatic Medicine Professional Branch, Chinese Medical Doctor Association (中华医学会心身医学专业分会).

Mr. Zhao graduated from Kunming Medical University (formerly known as Kunming Medical College) with a bachelor's degree in medicine in July 1983. In August 1988, he graduated from Sichuan University (formerly known as West China University of Medical Sciences) with a master's degree in medicine. In November 1993, he graduated from Heidelberg University in Germany with a doctoral degree in medicine.

## Directors, Supervisors and Senior Management

Ms. ZHONG Wentang ( 钟文堂 ), aged 32, joined the Group in June 2020. She has been serving as a partner at the Department of Compliance Consultation, Shanghai Infaith Consulting Co., Ltd. ( 上海英孚信咨询有限公司 ), a company engaging in providing consultation services for listed companies, since February 2019, and is mainly responsible for business in compliance consultation. From February 2016 to February 2019, Ms. Zhong served as a senior consultation manager and consultation business director successively in Shanghai Infaith Consulting Co., Ltd., mainly responsible for business in compliance consultation. From October 2012 to February 2016, she served as an auditor and senior auditor successively in PricewaterhouseCoopers Zhong Tian CPAs Limited Company, mainly responsible for finance and audit for internal control.

Ms. Zhong graduated from Fudan University in Shanghai with a bachelor's degree in sociology in June 2012.

Mr. LIU Ning ( 刘宁 ), aged 59, joined the Group in June 2020. He has been serving as the vice chairman of Winning Health Technology Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange (stock code: 300253.SZ) with focus on medical and health informatization) since April 2004, mainly responsible for the company's overall management. Since February 2018, he has been serving as the chairman of Kxhealth Medical Technology (Shanghai) Co., Ltd. ( 康信医疗科技(上海)有限公司 ), mainly responsible for the overall management of the company. Since July 2018, he has been serving as an executive director of Beijing Winning Health Technology Co., Ltd. ( 北京英孚信医疗科技集团有限公司 ), mainly responsible for the overall management of the company. Since October 2019, he has been serving as an executive director of Shanghai Weixin Technology Co., Ltd. ( 上海微信技术有限公司 ), mainly responsible for the overall management of the company. From April 1991 to April 2004, he successively served as a technician of the United States Hewlett-Packard (HP) Company and a director and vice president of Shanghai Kingstar Winning Medical Information Technology Co., Ltd. ( 上海金星英孚信医疗信息科技股份有限公司 ).

Mr. Liu graduated from Fudan University in Shanghai in June 1985 with a bachelor's degree in applied mechanics. He graduated from Fudan University in Shanghai in June 1988 with a master's degree in applied mathematics. He was qualified for holding senior engineer as evaluated by the Qualification Review Committee for Senior Professional Technical Positions of Shanghai High-tech Achievements Transformation of Engineering Series ( 上海市高级专业技术职务任职资格评审委员会 ) in May 2000.

### SUPERVISORS

Mr. XU Ning ( 徐宁 ), aged 49, is chairman of the Supervisory Committee. He is primarily responsible for supervising our daily operations and management. Mr. Xu joined the Company in March 2016, and is currently the vice president of administration and the vice president of the branding department of the Company. He is primarily responsible for the administration and brand building of the Company. Mr. Xu acted as the deputy head of office from March 2016 to October 2016, primarily responsible for the supervision of office daily operation. From November 2016 to December 2017, he served as the head of the personnel section, primarily responsible for staff evaluation and staff recruitment and deployment. He served as the vice president of the human resources department of the Company from January 2018 to June 2022. He was appointed as the vice president of the branding department in January 2022 and was appointed as the vice president of administration in June 2022. Prior to joining the Company, he worked with Wenzhou TV Station ( 温州电视台 ) successively as a news reporter at the news department of the news and general channel, producer of "Wenzhou News" ( 温州新闻 ), producer at the special feature department from September 1998 to February 2016, during which he was primarily responsible for news reporting and editing.

## Directors, Supervisors and Senior Management

Mr. Xu was graduated from Beijing Broadcasting Institute ( / ? g a ë ) (now known as the Communication University of China ( • 7 Å & } a ) ) in July 1998 with a bachelor's degree of arts. He received the professional qualification of first class human resources manager § t [ b U M # a ) from the Ministry of Human Resources and Social Security of the People's Republic of China in February 2018.

Mr. XU Yongjiu ( ± Q n ), aged 44, is our Supervisor. He joined the Group in October 2021 and is primarily responsible for supervising our daily operations and management. From July 2004 to December 2007, he served as the senior investment manager of the Development Research Headquarters of Shanghai International Group. From December 2007 to March 2009, he worked at the Investment Banking Headquarters in Asia Pacific of Citigroup. From March 2009 to September 2011, he served as an executive director of Shanghai International Group and the Securities Investment Headquarters of Shanghai Trust. From October 2011 to October 2015, Mr. Xu served as an executive director of GP Capital Co., Ltd. ( – \* 8 3 ? – M # P " @ ! ). Since February 2016, he has served as a supervisor of Shanghai Yincheng Investment Co., Ltd. ( j Ö 1 3 P " @ ! ). Since April 2016, he has served as a director, member of the investment committee and senior partner of Shanghai Jinpu Jianfu Equity Investment Management Co., Ltd. ( j – p Æ 3 M # P " @ ! ) and is mainly responsible for financial and medical investment. From February 2017 to September 2021, he served as a supervisor of Beijing Yining Hospital Co., Ltd. ( / Ë 1 < ë P " @ ! ). Mr. Xu served as a supervisor of Hangzhou Yining Hospital Co., Ltd. ( Ë Ë 1 < ë P " @ ! ) from April 2017 to August 2021. Since January 19, 2018 onwards, he has served as a director of Chengdu Yining Hospital Co., Ltd. ( Ó Ç Ë 1 < ë P " @ ! ). Since June 2021, he has been the representative appointed by the managing partners of Wenzhou Jinning Equity Investment Partnership (Limited Partnership) ( Ë – 1 p Æ 3 ¥ « † 8 € P " ¥ « • ).

Mr. Xu graduated from Southwestern University of Finance and Economics with a bachelor's degree in economics in July 2000. He graduated from Fudan University with a master's degree in finance in June 2004. Since June 2019, he has attended EMBA (Executive Master of Business Administration) at China Europe International Business School.

Mr. QIAN Chengliang ( z Ó ), aged 71, is our independent Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Qian joined the Company in June 2017 and has served as our independent Supervisor since then. Prior to joining the Company, from May 2007 to May 2012, he served as a deputy officer at the Standing Committee of Wenzhou Municipal People's Congress ( j Ë 9 [ } l % 6 ). From February 2003 to April 2007, he served as a vice mayor of Wenzhou. From October 1996 to January 2003, he served as a member of Standing Committee and officer of the organization division in Lishui ( á 9 % l % ). From November 1995 to September 1996, he served as an executive deputy officer of the organization division of the municipal committee of the Communist Party in Wenzhou.

Mr. XIE Tiefan ( } › m ), aged 43, is a Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Xie joined the Company in May 2000 and from May 2010 to September 2014, he held a variety of positions in the Company including the deputy director of the information department, the deputy director of the equipment department, the director of the equipment department and material purchasing department manager, where he was primarily responsible for equipment purchase and management. He was appointed as a Supervisor in September 2014 after the Company was converted into a joint stock limited liability company. Mr. Xie graduated from the Open University of China ( • / ? g e V } a ) in Beijing with an associate degree in finance in December 2004.

He graduated from Jinggangshan University in Jiangxi Province ( ê 2 œ j † } a ) with a bachelor's degree in biomedical engineering in January 2016. Mr. Xie was accredited as assistant engineer by the Wenzhou Municipal Bureau of Personnel ( Ë 9 [ + ... ) in December 2007.

## Directors, Supervisors and Senior Management

### SENIOR MANAGEMENT

Mr. ZHOU Chaoyi ( 周超义 ), aged 60, is our vice general manager. He is primarily responsible for assisting the general manager in managing the infrastructure of our Company. Mr. Zhou joined the Company in February 2005 and has served as our vice general manager since then. He was appointed as our vice general manager in September 2014 again after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from November 1995 to December 2004, Mr. Zhou served as the vice president of Wenzhou Cardiovascular Hospital ( 温州心脑血管病医院 ) which is a local hospital in Wenzhou, where he was primarily responsible for logistics. From May 1990 to October 1995, Mr. Zhou served as the assistant to president and section chief ( 科长 ) of human resources and security section at Wenzhou Traditional Chinese Medicine Hospital ( 温州中医学医院 ) which is a local hospital in Wenzhou, where he was primarily responsible for human resources and security. From January 1986 to April 1990, Mr. Zhou served as the human resource officer and deputy office director-general at Wenzhou Qigong Sanatorium ( 温州气功疗养院 ) in Wenzhou, where he was primarily responsible for human resources and youth work organization. Mr. Zhou completed the advanced study class ( 高级研修班 ) for modern health management at Zhejiang University in Hangzhou, Zhejiang Province in June 2014. Mr. Zhou was accredited as radiologist by Wenzhou Municipal Bureau of Health ( 温州市卫生局 ) in December 1989 and was accredited as clinical assistant medical practitioner by Zhejiang Health Bureau ( 浙江省卫生厅 ) in April 2000. Mr. Zhou was accredited as senior business operator by Wenzhou Municipal Human Resources and Social Security Bureau in November 2015.

Mr. YE Minjie ( 叶敏杰 ), aged 49, is our vice general manager. He is primarily responsible for assisting the general manager in the management of scientific researching and teaching, and international cooperation of the Company. He joined the Company in October 2013 as the vice president. Mr. Ye was appointed as our vice general manager in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from July 1994 to September 2013, he was the section chief ( 科长 ) at Wenzhou Mental Hospital ( 温州精神病院 ), which is a local hospital in Wenzhou, where he was primarily responsible for scientific research and teaching. Mr. Ye graduated from Xinxiang Medical College ( 新乡医学院 ) with a master's degree in psychiatry and mental health in Xinxiang, Henan Province in July 2007. He was accredited as chief physician in psychiatry by the Human Resources and Social Security Bureau of Zhejiang Province ( 浙江省人力资源和社会保障厅 ) in January 2014.

## Directors, Supervisors and Senior Management

Mr. XU Yi ( 许 屹 ), aged 47, is our vice general manager. He is primarily responsible for assisting the general manager in the facility and information technology of the Company. Mr. Xu joined the Company in October 2002 and served as the section chief ( 科长 ) in the logistics department from October 2002 to March 2009, where he was primarily responsible for logistics management. From April 2009 to September 2014, he served as our vice president, where he was primarily responsible for assisting the president in the overall management and logistics of the Company. He was appointed as our vice general manager in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from April 1999 to September 2002, he was a teacher at the Party School of Wenzhou Municipal Committee of the Communist Party of China ( 温州市委党校 ), where he was primarily responsible for teaching information technology courses. Mr. Xu graduated from the Beijing Institute of Economics and Management ( 北京工商大学 ) with a college diploma in art design through long-distance education in July 2005. Mr. Xu is the spouse of Ms. WANG Hongyue and the brother-in-law of Mr. GUAN Weili and Ms. WANG Lianyue.

Ms. ZHANG Feixue ( 张 飞雪 ), aged 52, is our vice general manager. She is primarily responsible for the operation of the hospitals in Taizhou of the Company. Ms. Zhang joined the Company in February 2004 and served as the head of the nursing department from February 2004 to October 2009, where she was primarily responsible for the management of nursing. From November 2009 to September 2010, she served as the head of the education department and the out-patient department, where she was primarily responsible for management. From October 2010 to March 2015, Ms. Zhang served as the vice president of the Company and was primarily responsible for assisting the president in managing nursing affairs. Ms. Zhang has been serving as the vice general manager of the Company since March 2015. Prior to joining the Company, Ms. Zhang held various positions at the Fifth Peoples Hospital of Yueqing ( 乐清市第五人民医院 ): from October 1995 to January 2004, she served as the head of the nursing department, where she was primarily responsible for hospital nursing management, and from January 1993 to September 1995, she served as an emergency head nurse, where she was primarily responsible for emergency nursing management. Ms. Zhang graduated from Beijing University of Chinese Medicine ( 北京中医药大学 ) with a bachelor's degree in nursing through long-distance education in July 2005. Ms. Zhang obtained the certificate of advanced study class for modern health management at Zhejiang University ( 浙江大学 ) in Hangzhou, Zhejiang Province in November 2014. Ms. Zhang completed the master of public administration courses at Zhejiang Normal University ( 浙江师范大学 ) in Jinhua, Zhejiang Province in June 2017. She was accredited as senior nurse by the Human Resources and Social Security Bureau of Zhejiang Province ( 浙江省人力资源和社会保障厅 ) in November 2013.

## Directors, Supervisors and Senior Management

Mr. WANG Jian ( 王 健 ), aged 38, is our vice general manager and the secretary to our Board. He is primarily responsible for overseeing public affairs and investment relationship, corporate financing and listing-related matters. Mr. Wang joined the Company in July 2014 and has served as the secretary to our Board since then. Mr. Wang was appointed as the secretary to our Board again in September 2014 after the Company was converted into a joint stock limited liability company. Mr. Wang was appointed as our vice general manager in June 2017. Prior to joining the Company, from June 2009 to July 2014, he served as a staff member ( 科员 ) and a senior staff member ( 高级科员 ) in the CSRC Xiamen Regulatory Bureau ( 中国证券监督管理委员会厦门监管局 ) where he was primarily responsible for monitoring the corporate governance and information disclosure of listed companies in the Xiamen area. From February 2008 to March 2009, he was a senior auditor at Ernst & Young Hua Ming LLP ( 安永华明会计师事务所(特殊普通合伙) ), where he was primarily responsible for audit work. From August 2005 to February 2008, he served as an auditor and a senior auditor at PricewaterhouseCoopers Zhong Tian CPAs Limited Company, where he was primarily responsible for audit work. Mr. Wang obtained a bachelor's degree in management from Guanghua School of Management at Peking University ( 北京大学光华管理学院 ) in Beijing in July 2005, where he majored in business administration. Mr. Wang was recognized as a non-practicing certified public accountant ( 非执业注册会计师 ) by the Chinese Institute of Certified Public Accountants in April 2010 and was granted the legal professional qualification certificate by the Ministry of Justice of the PRC in March 2014.

Mr. JIN Weiguang ( 金 伟光 ), aged 55, is our vice general manager. He is primarily responsible for handling the operation of the Company's hospitals in Haixi region. Mr. Jin joined the Company in May 2015 and served as the vice general manager of Shenzhen Yining Hospital from May 2015 to May 2017, where he was primarily responsible for operation functions. Mr. Jin served as the chief investment officer of the Company from May 2017 to February 2022 and has served as the general manager of Haixi region of the Company since February 2022. He was appointed as the vice general manager of the Company in November 2018. Prior to joining the Company, from August 1987 to April 2015, he served in Wenzhou Municipal Health Bureau ( 温州市卫生健康委员会 ), mainly responsible for planning, finance, infrastructure, price, statistics, equipment, drugs, consumables, social medical and other management works, concurrently serving as director of the planning finance department of Wenzhou Municipal Health Bureau from April 2009 to April 2015. From March 2002 to March 2009, he served as deputy head of office and deputy director of the planning finance department of Wenzhou Municipal Health Bureau. Mr. Jin graduated from the Correspondence College of the Party School of the Central Committee of CPC ( 中共中央党校函授学院 ) in December 1997, majoring in economic management. He graduated from the regional economic postgraduate course of Zhejiang Normal University ( 浙江师范大学 ) in August 2002. He graduated from the Australian Training Course on Health Administration (Medical Quality Management) ( 澳大利亚卫生行政培训(医疗质量管理) ) in November 2003. He also graduated from the Public Administration Seminar of Zhejiang University ( 浙江大学公共管理研讨班 ) in November 2004.

## Directors, Supervisors and Senior Management

Mr. JIN Hui ( 金 辉 ), aged 36, is our chief financial officer. He is primarily responsible for the overall financial management. He joined the Company in January 2022 and has served as our chief financial officer. Prior to joining the Company, he served as the project leader and senior partner of Zhejiang Huaming Certified Public Accountants Company Limited ( 浙江 华明 会计师事务所 有限公司 ) from June 2013, primarily responsible for the audit of various corporations, enterprises or institutions. He was responsible for the annual report and economic responsibility audit of Wenzhou municipal hospitals; annual report audit projects of large state-owned enterprises; audit of real estate, banking and other industries and government departments. He was employed as a budget review expert of Wenzhou Municipal People's Congress in November 2018, primarily responsible for the review and supervision of budget and final account settlement. Prior to joining the Zhejiang Huaming Certified Public Accountants Company Limited, he served as an audit assistant in Wenzhou Lead Certified Public Accountants Company Limited ( 温州 领航 会计师事务所 有限公司 ) from February 2009 to January 2012. Mr. Jin graduated from Zhejiang University of Finance & Economics ( 浙江 财经 大学 ) with a bachelor's degree in economics in June 2008. He obtained the qualification of certified public accountant issued by Zhejiang Provincial Department of Finance in March 2013.

Save as disclosed in the following table, during the Reporting Period, other Directors, Supervisors or senior management of the Company did not hold any positions in any members of the Group:

Directors/Senior Management	Members of the Group	Positions Held at	
		Members of the Group	Term of Office
GUAN Weili	Qingtian Kangning Hospital	Executive director	From April 2011 to present
	Cangnan Kangning Hospital	Executive director	From June 2012 to present
	Yongjia Kangning Hospital	Executive director	From December 2012 to present
	Yueqing Kangning Hospital	Executive director	From September 2013 to present
	Shenzhen Yining Hospital	Executive director	From September 2014 to July 2022
	Beijing Yining Hospital	Chairman	From August 2015 to present
	Geriatric Hospital	Executive director	From November 2015 to present
	Pingyang Kangning Hospital	Executive director	From November 2015 to present
	Shenzhen Yining Medical Investment Co., Ltd.	Executive director, General manager	From September 2015 to present
	Quzhou Yining Hospital	Executive director	From November 2015 to present
	Wenzhou Lucheng Yining Hospital Co., Ltd.	Chairman, General manager	From April 2020 to present

## Directors, Supervisors and Senior Management

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
WANG Lianyue	Yiwu Kangning Hospital Management Co., Ltd.	Executive director, Manager	From January 2017 to present
	Qingtian Kangning Hospital	Manager	From December 2018 to present
	Beijing Yining Hospital	Director	From May 2019 to present
	Hangzhou Yining Nursery Service Co., Ltd.	Executive director, General manager	From December 2020 to present
	Zhejiang Fengsheng Nutrition Technology Co., Ltd. ( 8 n Å ! P " @ ! )	Director	From February 2022 to present
	Zhejiang Yining Health Technology Co., Ltd.	Executive director	From September 2022 to present
	Zhejiang Dening Pharmaceutical Co., Ltd.	Director	From September 2022 to present
WANG Hongyue (resigned)	Cangnan Kangning Hospital	Supervisor	From June 2012 to September 2022
	Quzhou Yining Hospital	Director	From November 2015 to present
	Pingyang Kangning Hospital	Supervisor	From November 2015 to October 2022
	Zhejiang Huangfeng Hospital Management Co., Ltd.	Director	Form August 2016 to present
	Hangzhou Cining Hospital	Supervisor	From November 2017 to September 2022
	Zhejiang Yining Health Technology Co., Ltd.	Executive director	From April 2019 to September 2022
	Zhejiang Dening Pharmaceutical Co., Ltd.	Director	From June 2019 to September 2022
	Huainan Kangning Hospital	Supervisor	From June 2019 to present
	Changchun Kanglin Psychological Hospital	Chairman	From December 2019 to present
	Wenzhou Lucheng Yining Hospital Co., Ltd.	Supervisor	From April 2020 to to August 2022
	Beijing Yining Hospital	Director, Manager	From May 2020 to present
	Cangnan Yining Nursing Centre Co., Ltd.	Supervisor	From March 2021 to September 2022
	Pingyang Changgeng Yining Hospital Co., Ltd.	Supervisor	From September 2021 to present
	Wenzhou Ouhai Yining Geriatric Hospital Co., Ltd.	Supervisor	From December 2021 to September 2022
Jingyun Shuning Hospital Co., Ltd.	Director	From June 2021 to January 2022	
Jingyun Shuning Hospital Co., Ltd.	Chairman	From January 2022 to October 2022	

## Directors, Supervisors and Senior Management

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
XU Yi	Qingtian Kangning Hospital	Supervisor	From April 2011 to present
	Yueqing Kangning Hospital	Supervisor	From September 2013 to present
	Shenzhen Yining Hospital Geriatric Hospital	Supervisor	From September 2014 to present
	Beijing Yining Hospital	Supervisor	From November 2015 to present
	Shenzhen Yining Medical Investment Co., Ltd.	Supervisor	From August 2015 to present
	Quzhou Yining Hospital	Supervisor	From September 2015 to present
	Zhejiang Huangfeng Hospital Management Co., Ltd.	Chairman	From November 2015 to present
	Taizhou Kangning Hospital	Executive director	Form August 2016 to present
	Zhejiang Kangning Hospital Management (Group) Co., Ltd.	Executive director, General manager	From June 2016 to present
	Hangzhou Yining Hospital	Executive director, Chairman	From July 2016 to present
	Luqiao Cining Hospital	Executive director, Manager	From April 2017 to August 2022
	Huainan Kangning Hospital	Chairman	From December 2016 to present
	Hangzhou Cining Hospital	Executive director, General manager	From January 2018 to present
	Wenzhou Tianzhentang TCM Clinic Co., Ltd.	Executive director	From November 2017 to present
	Wenzhou Tianzhentang TCM Clinic Co., Ltd.	Executive director	General manager
	Zhejiang Jerinte Health Technology Co., Ltd.	General manager	From January 2018 to August 2022
	Wenzhou Lucheng Yining Hospital Co., Ltd.	Executive director, General manager	From December 2018 to present
	Wenzhou Jieling Jingxin Technology Co., Ltd. ( )	Director	From April 2020 to present
	Wenzhou Yuji Health Technology Co., Ltd. ( )	Executive director, General manager	From December 2021 to present
	Wenzhou Yuji Health Technology Co., Ltd. ( )	Director	From April 2022 to present

## Directors, Supervisors and Senior Management

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
ZHOU Chaoyi	Yiwu Kangning Hospital Management Co., Ltd. Hangzhou Yining Hospital Chun'an Qiandao Lake Kangning Hospital Co., Ltd	Supervisor  General manager Executive director, General manager	From January 2017 to present  From April 2019 to July 2022 From May 2021 to present
WANG Jian	Quzhou Yining Hospital Hangzhou Yining Hospital Nanjing Yining Hospital Wenling Nanfang Hospital Huainan Kangning Hospital Heze Yining Hospital Wenzhou Lucheng Yining Hospital Co., Ltd. Zhejiang Yining Health Technology Co., Ltd. Yining Psychology Internet Hospital  Hangzhou Yining Medical Equipment R&D Co., Ltd. Zhejiang Fengsheng Nutrition Technology Co., Ltd. ( 8 n Å   P " ® ! ) Wenzhou Ouhai Yining Geriatric Hospital Co., Ltd. Jingyun Shuning Hospital Co., Ltd.	Director Director Director Chairman, Manager Director Director Director Manager Executive director, General manager Executive director, General manager Chairman  Chairman Chairman	From November 2015 to present From April 2017 to present From July 2018 to November 2021 From January 2019 to present From June 2019 to present From March 2020 to present From April 2020 to present From March 2020 to present From March 2020 to present From April 2021 to present From February 2022 to present  From March 2021 to December 2021 From October 2022 to present
ZHANG Feixue	Linhai Kangning Hospital  Wenling Nanfang Hospital Linhai Cining Hospital Co., Ltd.	Executive director, Manager  Director Executive director, Manager	From January 2018 to present  From January 2019 to present From December 2020 to present

## Directors, Supervisors and Senior Management

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
YE Minjie	Wenzhou Yixin Health Technology Co., Ltd.	Executive director, General manager	From May 2019 to June 2022
JIN Weiguang	Quzhou Yining Hospital	Director	From November 2015 to present
	Heze Yining Hospital	Director	From December 2018 to present
	Pingyang Changgeng Yining Hospital Co., Ltd.	Manager	From July 2021 to September 2021
	Pingyang Changgeng Yining Hospital Co., Ltd.	Executive director	From September 2021 to present
	Cangnan Yining Nursing Centre Co., Ltd.	Executive director, General manager	From March 2021 to present
XU Ning	Guaxian Yining Hospital Co., Ltd.	Executive director	From July 2019 to present
	Heze Yining Hospital	Chairman	From March 2020 to present
JIN Hui	Wenzhou Ouhai Yining Elderly Hospital	Supervisor	From September 2022 to present
	Cangnan Yining Nursing Centre Co., Ltd.	Supervisor	From September 2022 to present

## Auditor's Report

BDO Kuai Shi Bao Zi (2022) No. ZA16070

To the Shareholders of Wenzhou Kangning Hospital Co., Ltd.,

### I. Qualified Opinion

We audited the financial statements of Wenzhou Kangning Hospital Co., Ltd. (hereinafter referred to as "Wenzhou Kangning Hospital"), including the consolidated and company balance sheet as at 31 December 2021, consolidated and company income statement, consolidated and company cash flow statement consolidated and company statement of changes in shareholder's equity for 2021 and the accompanying notes to the financial statements.

In our opinion, other than the possible impacts of the matters described in the section headed "Basis for Qualified Opinion", the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Wenzhou Kangning Hospital as at 31 December 2021, and their financial performance and cash flows for the year 2021 in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

### II. Basis for Qualified Opinion

- (I) As stated in Note XV(I) to the financial statements, it was revealed from the findings of the report received from the independent investigation firm commissioned by the independent investigation committee of the board of Kangning Hospital that, Kangning Hospital received a total of RMB14.4359 million of donations raised by a certain key financial personnel in 2019 to 2020, which was accounted for as account receivables collected; an employee of the social work department of Kangning Hospital collected a total of RMB12.1116 million from five decoration suppliers (controlled by the same person) and their related parties from January 2018 to February 2022; and during the period from 2018 to February 2022, a senior management officer of Kangning Hospital together with a total of 18 persons, 3 of whom had transactions with Kangning Hospital, have accumulated capital inflows of RMB105.4394 million and capital outflows of RMB67.9658 million. Since Kangning Hospital was unable to provide supporting evidence related to such capital flows, we could not obtain sufficient and appropriate audit evidence regarding the nature and rationality of the above capital flows and related transactions, was unable to judge the possible impact of these matters on the financial statements, nor could it make judgement on whether the management had made appropriate correction of accounting errors in previous periods for the donation of RMB14.4359 million.
- (II) As stated in Note XV/(II)/1 to the financial statements, the management of the Kangning Hospital re-evaluated the revenue recognition relating to the poverty-stricken patients and made correction of accounting errors in previous periods in respect of the variable consideration and the relevant impacts by reducing the revenue of 2020 by RMB42.8545 million and the credit impairment losses by RMB22.6423 million; reducing accounts receivable at the end of 2020 by RMB122.4752 million, provision for bad debts of accounts receivable of RMB25.8027 million and retained earnings of RMB76.4303 million at the beginning of 2020. The estimated amount of the variable consideration related to the revenue of 2021 was RMB27.2397 million, for which the management of Kangning Hospital was unable to provide supporting evidence. Therefore, we were unable to obtain sufficient and appropriate audit evidence for the correction on accounting errors in prior periods and the relevant current data in the financial statements of 2021, nor could it judge the possible impact of these matters on the financial statements.

## Auditor's Report

### II. Basis for Qualified Opinion (Continued)

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Wenzhou Kangning Hospital in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### III. Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matters described in the section headed "Basis for Qualified Opinion", we had not identified other key audit matters.

### IV. Other Information

Management of Kangning Hospital (hereinafter referred to as the "Management") is responsible for the other information. The other information comprises all of the information included in 2021 annual report of Kangning Hospital other than the financial statements and our auditor's report thereon. The 2021 annual report of Kangning Hospital is expected to be provided to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Inspital other n our do not Tj 3t, iavailabr opini judgdo -1.so,itorsdatr30hed we on and we do not Tj 3vidt wern iynnuaorsdst

## Auditor 's Report

### V. Responsibilities of the Management and Those Charged with Governance for the Financial Statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing of Wenzhou Kangning Hospital's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate Wenzhou Kangning Hospital or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Wenzhou Kangning Hospital's financial reporting process.

### VI. Auditor 's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (I) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (II) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- (III) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

## Auditor's Report

### VI. Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- (IV) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Wenzhou Kangning Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Wenzhou Kangning Hospital to cease to continue as a going concern.
- (V) Evaluate the overall presentation (including the disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (VI) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Wenzhou Kangning Hospital to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO China Shu Lun Pan Certified Public Accountants LLP

Signing CPA

Zhu Haiping  
(Engagement Partner)

Signing CPA

Lin Wenjun

Shanghai, the People's Republic of China  
October 26, 2022

## Consolidated Balance Sheets

As at 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note V	Closing balance	Balance at the end of the previous year
Current assets:			
Cash at bank and on hand	(I)	188,734,845.77	206,499,564.42
Settlement deposits			
Placements with banks and other financial institutions			
Financial assets held for trading	(II)	10,000,000.00	
Derivative financial assets			
Notes receivable			
Accounts receivable	(III)	311,757,875.46	225,300,247.01
Receivables financing			
Advances to suppliers	(V)	11,858,427.06	9,909,510.16
Premium receivable			
Reinsurance accounts receivable			
Provision for reinsurance contract receivable			
Other receivables	(VI)	29,938,365.90	63,478,701.68
Financial assets purchased for resale			
Inventories	(VI)	56,519,301.23	37,508,471.39
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets	(VII)	806,685.85	
Total current assets		609,615,501.27	542,696,494.66
Non-current assets:			
Granted loans and advances			
Debt investments			
Other debt investments			
Long-term accounts receivable			
Long-term equity investments	(VIII)	129,847,779.24	97,816,933.76
Investment in other equity instruments			
Other non-current financial assets	(IX)	65,812,274.58	57,404,918.27
Investment properties	(X)		107,804,936.40
Fixed assets	(XI)	721,846,771.52	533,743,383.81
Construction in progress	(XII)	43,795,718.15	134,941,286.10
Productive biological assets			
Oil and gas assets			
Right-of-use assets	(XIII)	257,412,270.13	232,612,440.56
Intangible assets	(XIV)	227,991,785.46	162,536,727.57
Development expenditure			
Goodwill	(XV)	135,741,377.18	79,199,853.12
Long-term prepaid expenses	(XVI)	150,501,037.40	153,550,839.60
Deferred tax assets	(XVII)	14,336,965.14	40,258,387.64
Other non-current assets	(XVIII)	21,066,386.60	18,708,451.10
Total non-current assets		1,768,352,365.40	1,618,578,157.93
TOTAL ASSETS		2,377,967,866.67	2,161,274,652.59

## Consolidated Balance Sheets

As at 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	Closing balance	Balance at the end of the previous year
Current liabilities:			
Short-term borrowings	(XIX)	254,050,000.00	312,500,000.00
Borrowings from central bank			
Placements from banks and other financial institutions			
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable	(XX)		36,080.00
Accounts payable	(XXI)	69,162,001.55	71,955,863.77
Receipts in advance	(XXII)	16,275,602.70	4,644,278.10
Contract liabilities	(XXIII)	3,240.59	12,965,175.33
Financial assets sold under repurchase agreements			
Receipt of deposits and deposits from other banks			
Funds received as agent of stock exchange			
Funds received as stock underwriter			
Employee benefits payable	(XXIV)	60,488,184.27	42,785,133.18
Taxes payable	(XXV)	30,235,329.33	49,046,555.41
Other payables	(XXVI)	66,523,265.66	85,807,141.43
Fees and commissions payable			
Reinsurance accounts payable			
Liabilities held for sale			
Non-current liabilities due within one year	(XXVII)	48,240,752.22	35,540,616.71
Other current liabilities			
Total current liabilities		544,978,376.32	615,280,843.93
Non-current liabilities:			
Provision for insurance contracts			
Long-term borrowings	(XXVIII)	280,950,000.00	110,992,970.00
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities	(XXIX)	231,733,760.37	194,601,229.70
Long-term payables			
Long-term employee benefits payable			
Provisions			
Deferred income	(XXX)	9,341,683.00	9,645,475.00
Deferred tax liabilities	(XVII)	39,875,789.95	25,032,438.67
Other non-current liabilities			
Total non-current liabilities		561,901,233.32	340,272,113.37
Total liabilities		1,106,879,609.64	955,552,957.30

## Consolidated Balance Sheets

As at 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	Closing balance	Balance at the end of the previous year
Shareholders' equity:			
Share capital	(XXXI)	74,600,300.00	74,600,300.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital surplus	(XXXII)	838,165,395.59	819,509,065.54
Less: Treasury stock	(XXXIII)		23,311,143.84
Other comprehensive income			
Special reserves			
Surplus reserve	(XXXIV)	38,399,577.13	36,593,228.71
Provision for general risks			
Retained earnings	(XXXV)	247,907,760.77	205,665,236.07
Total equity attributable to shareholders of the parent company		1,199,073,033.49	1,113,056,686.48
Non-controlling interests		72,015,223.54	92,665,008.81
Total shareholders' equity		1,271,088,257.03	1,205,721,695.29
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,377,967,866.67	2,161,274,652.59

The accompanying notes form an integral part of these financial statements.

Legal representative:  
GUAN Weili

Principal in charge of accounting:  
JIN Hui

Head of accounting department:  
WANG Minhui

## Parent Company Balance Sheets

As at 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note XVI	Closing balance	Balance at the end of the previous year
Current assets:			
Cash at bank and on hand		97,615,570.76	118,136,804.80
Financial assets held for trading			
Derivative financial assets			
Notes receivable			
Accounts receivable	(I)	43,073,020.07	50,259,010.93
Receivables financing			
Advances to suppliers		323,359.36	517,181.20
Other receivables	(II)	492,034,884.26	521,673,903.80
Inventories		8,646,145.40	10,374,364.51
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		143,021.82	
Total current assets		641,836,001.67	700,961,265.24
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	(III)	684,326,571.99	463,716,493.52
Investment in other equity instruments		65,812,274.58	57,404,918.27
Other non-current financial assets			
Investment properties			
Fixed assets		310,929,096.06	299,191,394.08
Construction in progress		782,356.00	3,144,166.60
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets		22,647,559.78	22,383,643.33
Development expenditure			
Goodwill			
Long-term prepaid expenses		21,445,103.19	17,188,510.09
Deferred tax assets		7,461,193.69	5,074,386.92
Other non-current assets		7,086,000.00	556,900.00
Total non-current assets		1,120,490,155.29	868,660,412.81
TOTAL ASSETS		1,762,326,156.96	1,569,621,678.05

## Parent Company Balance Sheets

As at 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note XVI	Closing balance	Balance at the end of the previous year
Current liabilities:			
Short-term borrowings		251,050,000.00	310,000,000.00
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable			
Accounts payable		13,161,555.37	34,954,083.13
Receipts in advance		2,011,708.12	
Contract liabilities			3,480,241.45
Employee benefits payable		17,876,433.39	15,629,765.62
Taxes payable		4,848,233.63	8,267,930.79
Other payables		80,372,279.89	32,729,371.15
Liabilities held for sale			
Non-current liabilities due within one year		3,000,000.00	
Other current liabilities			
Total current liabilities		372,320,210.40	405,061,392.14
Non-current liabilities:			
Long-term borrowings		200,950,000.00	38,000,000.00
Bonds payable			
Including: Preferred shares			
Perpetual shares			
Other payable held for trading			
Derivative financial liabilities			

## Parent Company Balance Sheets

As at 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS ' EQUITY	Note XVI	Closing balance	Balance at the end of the previous year
Shareholders' equity:			
Share capital		74,600,300.00	74,600,300.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital surplus		854,317,490.93	834,138,174.86
Less: Treasury stock			23,311,143.84
Other comprehensive income			
Special reserves			
Surplus reserve		38,399,577.13	36,593,228.71
Retained earnings		209,543,738.61	193,286,602.86
Total shareholders' equity		1,176,861,106.67	1,115,307,162.59
TOTAL LIABILITIES AND SHAREHOLDERS ' EQUITY		1,762,326,156.96	1,569,621,678.05

The accompanying notes form an integral part of these financial statements.

Legal representative:  
GUAN Weili

Principal in charge of accounting:  
JIN Hui

Head of accounting department:  
WANG Minhui

## Consolidated Income Statement

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note V	Amount for the current period	Amount for the previous period
I. Total revenue		1,297,430,369.83	989,012,003.88
Including: Revenue	(XXXVI)	1,297,430,369.83	989,012,003.88
Interest income			
Premium income			
Fees and commissions income			
II. Total cost of sales		1,226,514,555.85	915,085,667.60
Including: Cost of sales	(XXXVI)	968,432,455.76	729,172,657.37
Interest expenses			
Fees and commissions expenses			
Surrenders			
Net claims expenses			
Net provisions for insurance contracts reserve			
Insurance policy dividend paid			
Reinsurance costs			
Taxes and surcharges	(XXXVII)	5,754,219.28	5,413,866.23
Selling and distribution expenses	(XXXVIII)	10,335,392.65	8,072,345.09
General and administrative expenses	(XXXIX)	176,371,888.82	128,376,895.20
Research and development expenses	(XL)	27,962,173.39	20,972,501.61
Financial expenses	(XLI)	37,658,425.95	23,077,402.10
Including: Interest expenses		36,267,756.91	26,813,000.00
Interest income		1,691,366.88	4,677,222.00
Add: Other income	(XLII)	13,619,635.06	9,264,824.65
Investment income (losses represented with "-" signs)	(XLIII)	6,950,723.18	-6,968,566.05
Including: Investment income from associates and joint ventures		-6,565,719.92	-7,148,143.69
Derecognition income of financial assets measured at the amortized cost			
Foreign exchange gains (losses represented with "-" signs)			
Gains from net exposure hedges (losses represented with "-" signs)			
Gains from changes in fair value (losses represented with "-" signs)	(XLIV)	9,417,390.73	6,599,223.27
Credit impairment losses (losses represented with "-" signs)	(XLV)	-2,140,196.45	-483,491.92
Asset impairment losses (losses represented with "-" signs)	(XLVI)	-6,179,290.37	-8,011,602.04
Gains from disposal of assets (losses represented with "-" signs)	(XLVII)	-79,403.55	596,698.59
III. Operating profit (losses represented with "-" signs)		92,504,672.58	74,923,422.78
Add: Non-operating income	(XLVIII)	11,835,931.80	3,796,776.93
Less: Non-operating expenses	(XLIX)	8,636,583.42	4,401,945.19
IV. Total profit (total losses represented with "-" signs)		95,704,020.96	74,318,254.52
Less: Income tax expenses	(L)	54,830,913.00	30,662,195.18

## Consolidated Income Statement

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note V	Amount for the current period	Amount for the previous period
V. Net profit (net losses represented with "-" signs)		40,873,107.96	43,656,059.34
(I) Classified by continuity of operations			
1. Net profit from continued operations (net losses represented with "-" signs)		40,873,107.96	43,656,059.34
2. Net profit from discontinued operations (net losses represented with "-" signs)			
(II) Classified by ownership of the equity			
1. Net profit attributable to shareholders of the parent company (net losses represented with "-" signs)		44,048,873.12	55,770,161.56
2. Non-controlling interests (net losses represented with "-" signs)		-3,175,765.16	-12,114,102.22
VI. Other comprehensive income, net of tax			
Other comprehensive income attributable to shareholders of the parent company, net of tax			
(I) Other comprehensive income that cannot be reclassified to profit and loss			
1. Changes arising from remeasurement of defined benefit plan			
2. Other comprehensive income that cannot be reclassified to profit or loss under the equity method			
3. Changes in fair value of other equity instrument investments			
4. Changes in fair value due to the enterprise's own credit risk			
(II) Other comprehensive income that can be reclassified to profit and loss			
1. Other comprehensive income that can be reclassified to profit or loss under the equity method			
2. Changes in fair value of other debt investments			
3. Amount of financial assets reclassified to other comprehensive income			
4. Credit impairment provisions for other debt investments			
5. Reserves for cash flow hedges			
6. Exchange difference on translation of financial statements in foreign currencies			
7. Others			
Other comprehensive income attributable to non-controlling interests, net of tax			
VII. Total comprehensive income		40,873,107.96	43,656,059.34
Attributable to shareholders of the parent company		44,048,873.12	55,770,161.56
Attributable to non-controlling interests		-3,175,765.16	-12,114,102.22
VIII. Earnings per share:			
(I) Basic (RMB per share)	(LI)	0.61	0.77
(II) Diluted (RMB per share)	(LI)	0.59	0.75

The accompanying notes form an integral part of these financial statements.

Legal representative:  
GUAN Weili

Principal in charge of accounting:  
JIN Hui

Head of accounting department:  
WANG Minhui

## Parent Company Income Statement

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note XVI	Amount for the current period	Amount for the previous period
I. Revenue	(IV)	369,798,306.12	408,057,113.23
Less: Cost of sales	(IV)	271,489,388.70	275,572,072.11
Taxes and surcharges		3,013,304.93	3,102,082.15
Selling and distribution expenses		3,068,742.71	2,321,385.68
General and administrative expenses		70,825,757.20	56,075,728.40
Research and development expenses		16,486,961.41	15,876,537.43
Financial expenses		5,650,976.01	2,113,701.02
Including: Interest expenses		19,722,968.32	16,596,019.98
Interest income		14,521,251.32	15,059,611.69
Add: Other income		5,326,738.38	4,253,757.92
Investment income (losses represented with "-" signs)	(V)	4,923,377.54	-7,400,181.15
Including: Investment income from associates and joint ventures		-3,485,811.81	-7,579,758.79
Derecognition income of financial assets measured at the amortized cost			
Gains from net exposure hedges (losses represented with "-" signs)			
Gains from changes in fair value (losses represented with "-" signs)		8,407,356.31	6,123,049.27
Credit impairment losses (losses represented with "-" signs)		-1,973,004.61	-55,708.41
Asset impairment losses (losses represented with "-" signs)			-10,847,608.48
Gains from disposal of assets (losses represented with "-" signs)			
II. Operating profit (losses represented with "-" signs)		15,947,642.78	45,068,915.59
Add: Non-operating income		9,714,398.01	4,167,305.74
Less: Non-operating expenses		4,031,749.64	4,062,518.27
III. Total profit (total losses represented with "-" signs)		21,630,291.15	45,173,703.06
Less: Income tax expenses		3,566,806.98	11,260,908.99
IV. Net profit (net losses represented with "-" signs)		18,063,484.17	33,912,794.07
(I) Net profit from continuing operations (net losses represented with "-" signs)			
(II) Net profit from discontinued operations (net losses represented with "-" signs)			

## Parent Company Income Statement

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note XVI	Amount for the current period	Amount for the previous period
V. Other comprehensive income, net of tax			
(I) Other comprehensive income that cannot be reclassified to profit and loss			
1. Changes arising from remeasurement of defined benefit plan			
2. Other comprehensive income that cannot be reclassified to profit or loss under the equity method			
3. Changes in fair value of other equity instrument investments			
4. Changes in fair value due to the enterprise's own credit risk			
(II) Other comprehensive income that can be reclassified to profit and loss			
1. Other comprehensive income that can be reclassified to profit or loss under the equity method			
2. Changes in fair value of other debt investments			
3. Amount of financial assets reclassified into other comprehensive income			
4. Credit impairment provisions for other debt investments			
5. Reserves for cash flow hedges			
6. Exchange difference on translation of financial statements in foreign currencies			
7. Others			
VI. Total comprehensive income		18,063,484.17	33,912,794.07
VII. Earnings per share:			
(I) Basic (RMB per share)			
(II) Diluted (RMB per share)			

The accompanying notes form an integral part of these financial statements.

Legal representative:  
GUAN Weili

Principal in charge of accounting:  
JIN Hui

Head of accounting department:  
WANG Minhui

## Consolidated Cash Flow Statement

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note V	Amount for the current period	Amount for the previous period
I. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		1,211,114,150.81	1,009,899,304.00
Net increase in customer deposits and interbank deposits			
Net increase in borrowings from central bank			
Net increase in placements from other financial institutions			
Cash received from original insurance contract premium			
Net cash received from reinsurance business			
Net increase in deposits and investments from policyholders			
Cash received from interests, fees and commissions			
Net increase in placements from banks and other financial institutions			
Net increase in cash from repurchase business			
Net cash received from securities brokerage services			
Refund of taxes and levies			
Cash received relating to other operating activities	(LIII)	96,220,744.92	25,615,444.00
Sub-total of cash inflows of operating activities		1,307,334,895.73	1,035,514,748.00
Cash paid for goods and services		553,860,986.11	361,019,459.00
Net increase in customer loans and advances			
Net increase in deposits with central bank and other banks			
Cash paid for compensation under original insurance contract			
Net increase in placements with banks and other financial institutions			
Cash paid for interests, fees and commissions			
Cash paid for policyholders' dividends			
Cash paid to and on behalf of employees		425,383,922.44	333,194,249.00
Payments of taxes and surcharges		44,017,853.26	21,285,308.00
Cash paid relating to other operating activities	(LIII)	90,175,635.44	120,359,740.00
Sub-total of cash outflows of operating activities		1,113,438,397.25	835,858,756.00
Net cash flows from operating activities		193,896,498.48	199,655,992.00

## Consolidated Cash Flow Statement

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note V	Amount for the current period	Amount for the previous period
II. Cash flows from investing activities			
Cash received from disposal of investments		52,119,175.58	49,000,000.00

## Parent Company Cash Flow Statement

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note XVI	Amount for the current period	Amount for the previous period
I. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		367,674,455.38	430,696,545.00
Refund of taxes and levies			
Cash received relating to other operating activities		804,490,679.80	64,986,508.00
Sub-total of cash inflows of operating activities		1,172,165,135.18	495,683,053.00
Cash paid for goods and services		176,137,498.58	161,484,999.00
Cash paid to and on behalf of employees		141,102,134.39	135,403,738.00
Payments of taxes and surcharges		9,767,527.34	9,282,581.00
Cash paid relating to other operating activities		710,127,325.96	30,870,989.00
Sub-total of cash outflows of operating activities		1,037,134,486.27	337,042,307.00
Net cash flows from operating activities		135,030,648.91	158,640,746.00
II. Cash flows from investing activities			
Cash received from disposal of investments			49,000,000.00
Cash received from returns on investments		7,089,189.35	96,370.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		37,820.00	
Net cash received from disposal of subsidiaries and other business units			
Cash received relating to other investing activities			3,750,000.00
Sub-total of cash inflows of investing activities		7,127,009.35	52,846,370.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		37,662,933.95	38,292,840.00
Cash paid to acquire investments		212,313,500.00	158,247,608.00
Net cash paid to acquire subsidiaries and other business units			
Cash paid relating to other investing activities			5,370,000.00
Sub-total of cash outflows of investing activities		249,976,433.95	201,910,448.00
Net cash flows used in investing activities		-242,849,424.60	-149,064,078.00

## Parent Company Cash Flow Statement

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note XVI	Amount for the current period	Amount for the previous period
III. Cash flows from financing activities			
Cash received from capital contributions			1,590,000.00
Cash received from borrowings		518,050,000.00	348,000,000.00
Cash received relating to other financing activities			
Sub-total of cash inflows of financing activities		518,050,000.00	349,590,000.00



# Consolidated Statement of Changes in Owner's Equity

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

Items	Amount for the current period													
	Other equity instruments					Equity attributable to owners of the parent company					Total owners equity			
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risk		Retained earnings	Subtotal	Non-controlling interests
(V) Internal carry-forward of owners equity														
1. Conversion of capital reserves into paid-in capital (or share capital)														
2. Conversion of surplus reserves into paid-in capital (or share capital)														
3. Surplus reserves offsetting losses														
4. Carry-forward of changes in the defined benefit plan for retained earnings														
5. Carry-forward of other comprehensive income for retained earnings														
6. Others														
(VI) Special reserves														
1. Withdrawal for the period														
2. Usage for the period														
(VII) Others														
IV. Balance as at the end of the period	74,600,300.00				-1,526,420.61	-23,311,143.84			38,899,577.13	247,907,760.77	247,907,760.77	1,199,073,033.49	72,015,223.54	1,271,088,257.03
					838,165,395.59							21,784,723.23		21,784,723.23



# Consolidated Statement of Changes in Owners' Equity

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

Items	Amount for the previous period													
	Other equity instruments					Equity attributable to owners of the parent company								
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risk	Retained earnings	Subtotal	Non-controlling interests	Total owners' equity
(V) Internal carry-forward of owners' equity														
1. Conversion of capital reserves into paid-in capital (or share capital)														
2. Conversion of surplus reserves into paid-in capital (or share capital)														
3. Surplus reserves offsetting losses														
4. Carry-forward of changes in the defined benefit plan for retained earnings														
5. Carry-forward of other comprehensive income for retained earnings														
6. Others														
(VI) Special reserves														
1. Withdrawal for the period														
2. Usage for the period														
(VII) Others														
IV. Balance as at the end of the period	74,800,300.00				2,532,194.04	23,311,143.84			36,593,228.71		205,665,236.07	1,113,056,686.48	92,665,008.81	1,205,721,695.29

The accompanying notes form an integral part of these financial statements.

Legal representative:  
GUAN Weili

Principal in charge of accounting:  
JIN Hui

Head of accounting department:  
WANG Minhui



# Statement of Changes in Parent Company Owner's Equity

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

Items	Amount for the previous period							Total owner's equity
	Share capital	Preferred shares	Perpetual bonds	Other equity instruments	Capital reserve	Treasury stock	Less: Other comprehensive income	
I. Balance as at the end of the previous year	75,500,000.00				838,970,806.59	21,721,143.84		1,088,716,700.25
Plus: Changes in accounting policies								
Correction of accounting errors in prior periods								
Others								
II. Balance as at the beginning of the current year	75,500,000.00				838,970,806.59	21,721,143.84		1,088,716,700.25
III. Increases/decreases in the current period								
“(+)” for decreases	-899,700.00				-4,832,631.73	1,590,000.00		26,590,462.34
(I) Total comprehensive income							33,912,794.07	33,912,794.07
(II) Owner contribution and capital decrease	-899,700.00				-8,436,387.51	1,590,000.00		-10,926,087.51
1. Common stock contributed by owners	-899,700.00				-12,034,555.84	1,590,000.00		-14,524,255.84
2. Capital invested by holders of other equity instruments								
3. Amounts of share-based payments recognized in owners' equity					3,598,168.33			3,598,168.33
4. Others								
(III) Distribution of profits								
1. Withdrawal of surplus reserves								
2. Profit distributed to owners (or shareholders)								
3. Others								
(IV) Internal carry-forward of owners' equity								
1. Conversion of capital reserves into paid-in capital (or share capital)								
2. Conversion of surplus reserves into paid-in capital (or share capital)								
3. Surplus reserves offsetting losses								
4. Carry-forward of changes in the defined benefit plan for retained earnings								
5. Carry-forward of other comprehensive income for retained earnings								
6. Others								
(V) Special reserves								
1. Withdrawal for the period								
2. Usage for the period								
(VI) Others								
IV. Balance as at the end of the period	74,600,300.00				834,138,174.86	23,311,143.84		1,115,307,162.59

The accompanying notes form an integral part of these financial statements.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### I. General information

#### (I) Company profile

Wenzhou Kangning Hospital Co., Ltd. (the "Company") was established as a joint stock cooperative enterprise under the name of Wenzhou City Kangning Psychiatric Rehabilitation Hospital ( ] È 9 p 1 Z Z p B < ë ) in the PRC in February 1996. The address of the Company's registered office is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, the PRC.

On October 15, 2014, the Company was converted into a joint stock limited liability company and renamed as Wenzhou Kangning Hospital Co., Ltd. ( ] È p 1 < ë p ... Þ " © ! ).

The Company has its primary listing on the Stock Exchange of Hong Kong Limited on November 20, 2015. The Company is in the healthcare industry.

As of December 31, 2021, the Company had issued a total of 74,600,300 shares with a registered capital of RMB74,600,300; the registered address is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, the PRC, and the headquarters address is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, the PRC. The principal operating activities of the Company are operating psychiatric hospitals and providing management services to hospitals. The actual controlling person of the Company is Guan Weili.

The financial statements were authorised for issue by the Board of Directors of the Company on October 26, 2022.

#### (II) Scope of the consolidated financial statements

For details of subsidiaries of the Company, please refer to Note VII. Interests in other entities'.

For details of the scope and changes of the consolidated financial statements during the current period, please refer to Note " VI. Changes in scope of consolidation".

### II. Basis of preparation of financial statements

#### (I) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises – Basic Standards and various specific accounting standards, application guidance for the Accounting Standards for Business Enterprises, interpretations of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (hereafter collectively referred to as the Accounting Standards for Business Enterprises), and the relevant requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting issued by the China Securities Regulatory Commission.

#### (II) Going concern

The financial statements are prepared on a going concern basis.

# Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

## III. Significant accounting policies and accounting estimates

1. The Company shall follow the principle of importance in its preparation and disclosure of financial reports and determine the materiality in terms of both the nature and amount based on the actual conditions.
2. For the relevant transactions and matters that require professional judgment based on the principle of substance over form, the Company shall fully disclose the specific circumstances, the reasons and basis of the relevant professional judgment, and the specific accounting treatment related thereto.
3. The Company shall formulate specific accounting policies appropriate to the actual production and operation characteristics, and fully disclose the significant accounting policies and accounting estimates adopted during the Reporting Period. The specific accounting policies and accounting estimates formulated by the Company based on the actual production and operation characteristics shall be presented at the beginning of this section.

The new Hong Kong Companies Ordinance became effective on March 3, 2014. Certain disclosures in the financial statements have been adjusted in accordance with requirements therein.

### (I) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements are in compliance with the Accounting Standards for Business Enterprises issued by Ministry of Finance, and truly and completely present the consolidated and the parent company's financial position of the Company as at December 31, 2021 and their financial performance and cash flows for 2021.

### (II) Accounting period

The Company's accounting year starts on 1 January and ends on 31 December.

### (III) Operating cycle

The Company's operating cycle is 12 months.

### (IV) Recording currency

The Company adopts Renminbi (RMB) as recording currency. The recording currency of the Company's subsidiaries is determined based on the primary economic environment in which they operate. All the Company's subsidiaries operate within the PRC and their recording currency is RMB. The financial statements are presented in RMB.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (V) Accounting treatments for business combinations under common control and not under common control

Business combinations involving enterprises under common control: The assets and liabilities acquired by the acquirer through business combination shall be measured at the carrying value of the assets, liabilities of the acquiree (including goodwill incurred in the acquisition of the acquiree by ultimate controlling party) in the financial statements of the ultimate controlling party at the date of combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or total nominal value of the issued shares) is adjusted to capital premium in capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Business combinations involving enterprises not under common control: The cost of combination is the fair value of assets paid, liabilities incurred or committed and issued shares by the acquirer to obtain control. Where the cost of combination is higher than the fair value of the identifiable net assets acquired from the acquiree in business combination, the Company shall recognise such difference as goodwill; where the cost of combination is less than the fair value of the identifiable net assets acquired from the acquiree in business combination, such difference shall be charged to profit or loss for the current period. The identifiable assets, liabilities and contingent liabilities acquired from the acquiree in a business combination that meet the recognition criteria are measured at fair value at the acquisition date.

The direct relevant expenses incurred for the business combinations are recognised as the profit or loss in the period when the costs are incurred; the transaction costs for the equity securities or debt securities issued for business combination shall be recognised as the initial recognition amount of equity securities or debt securities.

#### (VI) Preparation of consolidated financial statements

##### 1. *Scope of consolidation*

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries. The Company controls an entity when has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

##### 2. *Consolidation procedure*

The Company regards the entire enterprise group as an accounting entity and prepares consolidated financial statements in accordance with unified accounting policies to reflect the overall financial position, operating results and cash flow of the enterprise group. The impact of internal transactions between the Company and its subsidiaries or between subsidiaries shall be offset. If internal transactions indicate that the relevant assets have suffered impairment losses, this part of losses shall be confirmed in full. If the accounting policies or accounting periods of a subsidiary are different from those of the Company, the consolidated financial statements of the subsidiary, upon preparation, will be adjusted according to the accounting policies and accounting periods of the Company.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (VI) Preparation of consolidated financial statements (Continued)

##### 2. Consolidation procedure (Continued)

The owners' equity, net profit or loss and other comprehensive income of subsidiaries for the period attributable to non-controlling shareholders are respectively and separately presented under the owners' equity in the consolidated balance sheet, the net profit in the consolidated income statement, and the total comprehensive income in the consolidated income statement. If the loss for the period shared by a non-controlling shareholder of a subsidiary exceeds the balances arising from the shares enjoyed by the non-controlling shareholder in the owners' equity of the subsidiary at the beginning of the period, non-controlling interest will be written down accordingly.

##### (1) Increase of subsidiaries or business

During the Reporting Period, where the Company acquired subsidiaries or business from the business combination under common control, the operating results and cash flows of the newly (Continued)InD (sfo4ato7ery acquire shheetaft (')terestin4 be J 0 Tc Gexis)Tj(edsforororm0 a su824 the opera business roriveabe J 0Durin4d, whereolling shareh3statement. If [(a su824 thell be wot(ewly)1n)0.5 ( ( )Tn)0.5

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (VI) Preparation of consolidated financial statements (Continued)

##### 2. Consolidation procedure (Continued)

##### (2) Disposal of subsidiaries

##### ú General treatment methods

When the Company loses the control over the investee due to disposal of partial equity investment or other reasons, the remaining equity investment after the disposal should be re-measured by the Company at the fair value thereof on the date of losing the control. The difference of total amount of the consideration from disposal of equities plus the fair value of the remaining equities less the shares calculated at the original shareholding ratio in net assets and goodwill of the original subsidiary which are continuously calculated as of the acquisition date or combination date shall be included in the investment income of the period at the loss of control. Other comprehensive income that will be reclassified into profit or loss later associated with the equity investments of the original subsidiary, or the changes in other owners' equity calculated under the equity method, shall be transferred into investment income of the current period when control is lost.

##### û Disposal of subsidiaries by stages

If the control is lost due to disposal of the equity investments in subsidiaries through multiple transactions by stages, and the terms, conditions and economic impact of the transactions related to the disposal of equity investments in subsidiaries meet one or more of the following circumstances, it usually indicates that multiple transactions will be treated a package deal:

- i. These transactions are concluded at the same time or under the consideration of mutual effect;
- ii. These transactions as a whole can reach a complete business result;
- iii. The occurrence of a transaction depends on that of at least one of the other transaction;
- iv. A single transaction is uneconomical but it is economical when considered together with other transactions.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (VI) Preparation of consolidated financial statements (Continued)

##### 2. Consolidation procedure (Continued)

##### (2) Disposal of subsidiaries (Continued)

##### û Disposal of subsidiaries by stages (Continued)

Where various transactions belong to a package deal, accounting treatment shall be made by the Company on the transactions as a transaction to dispose of subsidiaries and lose the control; the difference between each disposal cost and net asset share in the subsidiaries corresponding to each disposal of investments before loss of the control should be recognised as other comprehensive income in the consolidated financial statements and should be transferred into the profit or loss for the current period at the loss of the control.

Where various transactions do not belong to a package deal, before the loss of the control, accounting treatment shall be made according to the partial disposal of equity investments in the subsidiary without losing control; at the loss of the control, accounting treatment shall be made according to general treatment methods for disposal of subsidiaries.

##### (3) Purchase of non-controlling interests in a subsidiary

The share premium in the capital reserves under the consolidated balance sheet will be adjusted at the difference between the long-term equity investment acquired by the Company for the purchase of non-controlling interest and the share of net assets calculated constantly from the acquisition date or combination date according to the newly increased shareholding ratio; if the share premium of capital reserves is insufficient to offset, the retained earnings will be adjusted.

##### (4) Partial disposal of equity investments in subsidiaries without losing control

The share premium of capital reserves in the consolidated balance sheet will be adjusted according to the difference between the disposal price and the share of net assets of subsidiaries calculated from the acquisition date or the combination date corresponding to the disposal of long-term equity investments; if the share premium of capital reserves is insufficient to offset, the retained earnings will be adjusted.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (VII) Classification of joint arrangement and accounting treatment of joint operation

A Joint arrangement is classified into joint operation and joint venture.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Company recognises the following items in relation to its share of benefits in joint operations:

- (1) the assets held solely by the Company and those jointly held on a pro-rata basis;
- (2) the liabilities assumed solely by the Company and those jointly assumed on a pro-rata basis;
- (3) the income generated from the sale of the products of the joint operation attributable to the Company;
- (4) the income generated by the joint operation from the sale of products on a pro-rata basis;
- (5) the expenses incurred solely by the Company and those incurred by the joint operation on a pro-rata basis.

The investment in joint ventures of the Company are accounted for under the equity method. For details, please refer to Note " III. (XIII) Long-term equity investments" .

#### (VIII) Determination standards of cash and cash equivalents

Cash refers to the Company's cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents refer to the Company's short-term and highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

#### (IX) Foreign currency transactions

Foreign currency transactions shall be translated into RMB at the spot exchange rate on the day when the transactions occurred.

Balance sheet date foreign currency monetary items shall be translated using the spot exchange rate at the balance sheet date. The resulting exchange difference are recognised in profit or loss for the current period, except for those differences related to a specific-purpose borrowing denominated in foreign currency for acquisitions and construction of the qualified assets, which should be capitalised as cost of the borrowings.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (X) Financial instruments

The Company recognises a financial asset, a financial liability or equity instrument when it becomes a party to the financial instrument contract.

##### 1. *Classification of financial instruments*

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. At the initial recognition, financial assets are classified as: financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- Ñ it is held within a business model whose objective is to hold assets to collect contractual cash flows;
- Ñ its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income (debt instruments) if it meets both of the following conditions and is not designated at fair value through profit or loss:

- Ñ it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- Ñ its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (X) Financial instruments (Continued)

##### 1. *Classification of financial instruments (Continued)*

For an investment in equity instruments not held for trading purposes, the Company may irrevocably designate it as financial assets (equity instruments) at fair value through other comprehensive income at the initial recognition. This designation is made on an investment-by-investment basis, and the related investment meets the definition of an equity instrument from the issuer's perspective.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. At initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

At the initial recognition, financial liabilities are classified as: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

When meeting any of the following criteria, the Company may, at initial recognition, designate a financial liability as measured at fair value through profit or loss:

- 1) Such designation would eliminate or significantly reduce a measurement or recognition inconsistency.
- 2) A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the company is provided internally on that basis to the entity's key management personnel.
- 3) The financial liabilities include embedded derivatives which can be split separately.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (X) Financial instruments (Continued)

##### 2. *Recognition basis and measurement method of financial instruments*

###### (1) Financial assets at amortised cost

Financial assets at amortised cost include bills receivable, accounts receivable, other receivables, long-term receivables, and debt investment, etc., of which initial measurement is made at fair value, and relevant transaction costs are included in the initially recognised amount; exclude accounts receivable with significant financing component and accounts receivable with the financing component not exceeding one year and not considered by the Company, of which initial measurement is made at the contract transaction price.

During the holding period, the interest calculated by the effective interest method is included in the profit or loss for the current period.

At recovery or disposal, the difference between the purchase price obtained and the carrying amount of such financial assets is included in the profit or loss for the current period.

###### (2) Financial assets (debt instruments) at fair value through other comprehensive income

Financial assets (debt instruments) at fair value through other comprehensive income include receivables financing and other debt investment, etc., of which initial measurement is made at fair value, and relevant transaction costs are included in the initially recognised amount. The subsequent measurement of such financial assets is made at fair value. Changes in fair value are included in other comprehensive income except for the interest calculated by the effective interest method, impairment losses or reversal, and exchange gains or losses.

At derecognition, the accumulated gains or losses previously included in other comprehensive income are transferred from the other comprehensive income to the profit or loss for the current period.

###### (3) Financial assets (equity instruments) at fair value through other comprehensive income

Financial assets (equity instruments) at fair value through other comprehensive income include investment in other equity instruments, etc., of which initial measurement is made at fair value, and relevant transaction costs are included in the initially recognised amount. The subsequent measurement of such financial assets is made at fair value, and changes in fair value are included in other comprehensive income. The dividends obtained are included in the profit or loss for the current period.

At derecognition, the accumulated gains or losses previously included in other comprehensive income are transferred from the other comprehensive income to the retained earnings.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (X) Financial instruments (Continued)

##### 2. Recognition basis and measurement method of financial instruments (Continued)

##### (4) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include trading financial assets, derivative financial assets and other non-current financial assets, etc., of which initial measurement is made at fair value, and relevant transaction costs are included in the profit or loss for the current period. The subsequent measurement of such financial assets is made at fair value, and changes in fair value are included in the profit or loss for the current period.

##### (5) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include trading financial liabilities and derivative financial liabilities, etc., of which initial measurement is made at fair value, and relevant transaction costs are included in the profit or loss for the current period. The subsequent measurement of such financial liabilities is made at fair value, and changes in fair value are included in the profit or loss for the current period.

At derecognition, the difference between the carrying amount and the consideration paid of such financial liabilities is included in the profit or loss for the current period.

##### (6) Financial liabilities at amortised cost

Financial liabilities at the amortised cost include short-term borrowings, bills payable, accounts payable, other payables, long-term borrowings, bonds payable and long-term payables, of which initial measurement is made at fair value, and relevant transaction costs are included in the initially recognised amount.

During the holding period, the interest calculated by the effective interest method is included in the profit or loss for the current period.

At derecognition, the difference between the consideration paid and the carrying amount of such financial liabilities is included in the profit or loss for the current period.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (X) Financial instruments (Continued)

##### 3. *Derecognition and transfer of financial assets*

Where one of the following conditions is met, the Company shall derecognise financial assets:

- Ñ The contractual right of collecting cash flows of financial assets is terminated;
- Ñ The financial assets have been transferred, and nearly all of the risks and rewards related to the ownership of the financial assets have been transferred to the transferee;
- Ñ The financial assets have been transferred, and the Company does not retain the control over the financial assets through it has neither transferred nor retained nearly all risks and rewards related to the ownership of the financial assets.

At the transfer of financial assets, where nearly all of the risks and rewards related to the ownership of the financial assets have been retained, such financial assets shall not be derecognised.

In determining whether the transfer of a financial asset meets the above derecognition criteria of financial assets, the principle of substance over form will be adopted.

The Company divides the transfer of financial assets into entire transfer and partial transfer. Where the entire transfer of financial assets meets the derecognition conditions, the difference of the following two amounts is included in the profit or loss for the current period:

- (1) The carrying amount of the transferred financial assets;
- (2) The sum of consideration received from the transfer, and the accumulated change amount of fair value originally recorded in owners' equity (the financial assets involved in the transfer are financial assets (debt instruments) at fair value through other comprehensive income).

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (X) Financial instruments (Continued)

##### 3. *Derecognition and transfer of financial assets (Continued)*

Where the partial transfer of a financial asset meets the derecognition criteria, the entire carrying amount of the financial asset transferred shall be allocated between the derecognised part and the recognised part based on the relative fair value, and the difference between the following two amounts shall be included in the profit or loss for the current period:

- (1) The carrying amount of derecognised part;
- (2) The sum of the consideration for the derecognised part and the amount corresponding to the derecognition part in the accumulated change amount of fair value originally and directly included in owners' equity (where the financial assets transferred are the financial assets (debt instruments) at fair value through other comprehensive income).

Where the transfer of financial assets does not meet the derecognition criteria, the financial assets shall continue to be recognised, and the consideration received shall be recognised as a financial liability.

##### 4. *Derecognition of financial liabilities*

Where the present obligations of financial liabilities have been discharged in whole or in part, the financial liabilities or any part thereof shall be derecognised; if the Company signs an agreement with creditors to replace the existing financial liabilities by undertaking new financial liabilities, and the new financial liabilities are substantially different from the existing ones in terms of contract terms, the existing financial liabilities shall be derecognised, and at the same time, the new financial liabilities shall be recognised.

Where substantive changes are made to the contract terms of existing financial liabilities in whole or in part, the existing financial liabilities shall be derecognised in whole or in part, and the financial liabilities of which terms have been modified shall be recognised as a new financial liability.

Where financial liabilities are derecognised in whole or in part, the difference between the carrying amount of the financial liabilities derecognised and the consideration paid (including non-cash assets surrendered and the new financial liabilities assumed) shall be included in profit or loss for the current period.

Where the Company redeems part of its financial liabilities, it shall, on the redemption date, allocate the entire carrying amount of the financial liabilities according to the relative fair value of the part that continues to be recognised and the derecognised part. The difference between the carrying amount allocated to the derecognised part and the considerations paid (including non-cash assets surrendered and the new financial liabilities assumed) shall be included in the profit or loss for the current period.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (X) Financial instruments (Continued)

##### 5. *Determination of fair value of financial assets and financial liabilities*

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. In valuation, the Company adopts valuation techniques applicable in the current situation and supported by adequate available data and other information, selects inputs with the same characteristics as those of assets or liabilities considered in relevant transactions of assets or liabilities by market participants, and gives priority to the use of relevant observable inputs. Unobservable inputs are adopted only when relevant observable inputs are not available or feasible.

##### 6. *Testing and accounting methods for impairment of financial assets*

The Company estimates the expected credit losses of financial assets at amortised cost, financial assets (debt instruments) at fair value through other comprehensive income and financial guarantee contracts individually or in combination.

Giving consideration to reasonable and supportable information on past events, current conditions and forecasts of future economic conditions, as well as the default risk weight, the Company recognizes the expected credit losses as the probability-weighted amount of the present value of the difference between the cash flows receivable from the contract and the cash flows expected to collect.

If the credit risk of the financial instrument has increased significantly since initial recognition, the Company measures the loss provision at an amount equal to lifetime expected credit losses of the financial instrument; if the credit risk of the financial instrument has not increased significantly since initial recognition, the Company measures the loss provision at an amount equal to 12-month expected credit losses of the financial instrument. The resulting increase in or reversal of loss provision shall be included in profit or loss for the current period as impairment losses or gains.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (X) Financial instruments (Continued)

##### 6. *Testing and accounting methods for impairment of financial assets (Continued)*

Accounts receivable grouping: Overdue days grouping

For accounts receivables classified as a grouping, the Company will refer to the historical credit loss experience, combined with the current conditions and the forecast of future economic conditions, to prepare a comparison table between the overdue days of accounts receivables and the overdue credit loss rate of the entire duration to calculate the overdue expected credit losses.

For other receivables, if the information of expected credit losses for individual financial assets are unable to be estimated at reasonable cost, the Company will classify them into groupings based on their credit risk characteristics and calculate the expected credit losses by grouping, the basis for determining the groupings is as follows:

Other receivables group 1: grouping of consolidated related parties

Other receivables group 2: grouping based on credit risk characteristics of aging

For other receivables classified into groupings, the Company will refer to historical credit loss experience, combined with the current conditions and the forecast of future economic conditions, to calculate the expected credit losses according to the exposure to breach of contract risk and the expected credit loss rate in the next 12 months or over the entire duration.

For lease receivables, the Company chooses to always measure the loss provision at an amount equal to lifetime expected credit losses.

Where the Company no longer reasonably expects contractual cash flows of a financial asset to be fully or partially recoverable, the book value of the financial asset is written down directly.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XI) Inventories

1. *Classification and cost of inventories*

Inventories are classified as materials in transit, turnover materials and goods on hand.

Inventories are measured initially at cost. Cost of inventories comprises costs of purchase, costs of processing and other expenditures incurred in bringing the inventories to their present location and condition.

2. *Valuation method for inventory issued*

Inventories are accounted using the method of first-in first out when issued.

3. *Basis for determining net realisable values of different types of inventories*

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. When the cost of inventories is higher than the net realisable value, a provision for decline in the value of inventories is made. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, the estimated costs necessary to make the sale and related taxes.

Net realisable values of merchandise inventories held directly for sale, such as finished goods, goods on hand, and available-for-sale materials, are measured at the estimated selling prices less the estimated costs necessary to make the sale and related taxes in the normal production process. Net realisable values of material inventories which need further processing are measured at the estimated selling prices less the estimated costs of completion, the estimated costs necessary to make the sale and related taxes in the normal production process. Net realisable values of inventories held for the purpose of fulfillment of sales contracts or service contracts are calculated on the basis of the contract prices; if the quantity of inventories held exceeds that stated in the sales contracts, the net realisable values of the excessive part are calculated on the basis of normal selling prices.

When the provision for inventory impairment is made, where the previous factor rendering the write-down of the inventory value has been eliminated, for which the net realisable value of the inventory is higher than the book value of the same, the provision for inventory impairment shall be reversed from the amount of provision for inventory impairment originally made, and the reversed amount shall be included in profit or loss for the current period.

4. *Inventory count system*

Adopt the perpetual inventory system.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XII) Contract assets

1. *Recognition methods and standards of contract assets*

The Company presents contract assets or contract liabilities in the balance sheet based on the relationship between performance obligations and customer payments. The Company's right to receive consideration for goods transferred or services provided to customers is presented as a contract asset if such right is conditional on factors other than the passage of time. Contract assets and contract liabilities under the same contract are presented on a net basis. The Company's rights to receive consideration from customers are presented separately as receivables if such rights are unconditionally (only the passage of time is required before payment is due).

2. *Determination and accounting treatment of expected credit loss of contract assets*

For the determination and accounting treatment of expected credit loss of contract assets, please refer to the "(X) 6. Testing and accounting methods for impairment of financial assets" herein.

#### (XIII) Long-term equity investments

1. *Criteria of joint control or significant influence*

Joint control is the contractually agreed sharing of control of an arrangement, and exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control. If the Company together with the other joint venture parties can jointly control over the investee and are entitled to the right of the net assets of the investee, the investee is a joint venture of the Company.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Where the Company can exercise significant influence over the investee, the investee is an associate of the Company.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XIII) Long-term equity investments (Continued)

##### 2. *Determination of initial investment cost*

##### (1) Long-term equity investments acquired through a business combination

For long-term equity investments in subsidiaries acquired through a business combination involving enterprises under common control, the initial investment cost of long-term equity investments is its share of the book value of the owner's equity of the acquiree in the combined financial statements of the ultimate controlling party on the date of combinations. The difference between initial investment cost of long-term equity investment and the carrying value of consideration paid is to adjust share premium in the capital reserve; if the balance of share premium in the capital reserve is insufficient, any excess is adjusted to retained earnings. In connection with imposing control over the investee under joint control as a result of additional investment and other reasons the difference between initial investment cost of long-term equity investment according to the aforesaid principle, and the sum of the carrying value of long-term equity investment before combination and the carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust share premium. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

For long-term equity investments in subsidiaries acquired through a business combination involving enterprises not under common control, the combination cost determined on the date of acquisition shall be taken as the initial investment cost of the long-term equity investment. In connection with imposing control over the investee not under joint control as a result of additional investment and other reasons, the initial investment cost shall be the sum of the carrying value of the equity investment originally held and the newly increased investment cost.

##### (2) Long-term equity investments acquired other than through a business combination

For long-term equity investments acquired by payment in cash, the initial investment cost shall be the purchase price actually paid.

For long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XIII) Long-term equity investments (Continued)

##### 3. *Subsequent measurement and recognition of profit or loss*

##### (1) Long-term equity investments accounted for using the cost method

Long-term equity investments of the Company in its subsidiaries are accounted for using the cost method unless such investments meet the conditions of held-for-sale. Except for the actual consideration paid for the acquisition of investment or the declared but not yet distributed cash dividends or profits which are included in the consideration, investment gains are recognized as the Company's share of the cash dividends or profits declared by the investee.

##### (2) Long-term equity investments accounted for using the equity method

Long-term equity investments in associates and joint ventures are accounted for using the equity method. Where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of investment, no adjustment shall be made to the initial investment cost of long-term equity investments. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of investment, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted accordingly.

The Company recognises the investment income and other comprehensive income according to its share of net profit or loss and other comprehensive income realized by the investee respectively, and simultaneously makes adjustment to the carrying value of long-term equity investments. The carrying value of long-term equity investment shall be reduced by attributable share of the profit or cash dividends for distribution declared by the investee. In relation to other changes of owner's equity (the "Other Changes of Owner's Equity") except for net profit or loss, other comprehensive income and profit distribution of the investee, the carrying value of long-term equity investment shall be adjusted and included in owner's equity.

The Company's share of net profit or loss, other comprehensive income and Other Changes of Owner's Equity of an investee is determined based on the fair value of identifiable assets of the investee at the time when the investment is obtained, and according to the accounting policies and accounting period of the Company, recognition shall be made to the net profit of the investee after the adjustment and other comprehensive income, etc.

Unrealised profits and losses resulting from transactions between the Company and its associates or joint venture are eliminated to the extent of the Company's interest in the associates or joint venture, based on which investment income shall be recognized, except for the invested or disposed of assets constituted a business. Unrealised losses resulting from transactions with the investee, which are attributable to impairment of assets, shall be fully recognized.

The Company discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that is in substance forms part of the Company's net investment in the associate or the joint venture is reduced to zero, except to the extent that the Company has an obligation to assume additional losses. Where net profits are subsequently made by the associate or joint venture, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XIII) Long-term equity investments (Continued)

##### 3. *Subsequent measurement and recognition of profit or loss (Continued)*

##### (3) Disposal of long-term equity investments

For disposal of long-term equity investments, the difference between the book value and the actual price shall be included into profit or loss for the current period.

For long-term equity investments with partial disposal accounting by the equity method, where the remaining equity is still accounted for by the equity method, other comprehensive income recognised originally upon the accounting by the equity method shall be carried forward at the corresponding proportion on the basis same with that for the direct disposal of relevant assets or liabilities by the investee, and Other Changes of Owner's Equity shall be carried forward to profit or loss for the current period in proportion.

Where the Group loses the joint control over or significant influence on the investee on account of the disposal of equity investment and any other reason, when the accounting by the equity method is terminated, other comprehensive income recognised upon the accounting by the equity method from the original equity investment shall be subject to the accounting treatment which is made on the basis same with that for the direct disposal of relevant assets or liabilities by the investee, and Other Changes of Owner's Equity shall be transferred to profit or loss for the current period in full.

Where the Group loses the control over the investee on account of the partial disposal of equity investment and any other reason, at the preparation of any single financial statements, if the remaining equity has the joint control over or significant influence on the investee, the accounting shall be made by the equity method, and an adjustment shall be made as if the remaining equity was accounted for by the equity method at acquisition; other comprehensive income recognised before the control over the investee is obtained shall be carried forward on the basis same with that for the direct disposal of relevant assets or liabilities by the investee, and Other Changes of Owner's Equity recognised on account of the accounting by the equity method shall be carried forward to profit or loss for the current period in proportion; if the remaining equity has no joint control over or significant influence on the investee, relevant financial assets shall be recognised, the difference between the fair value on the day of losing control of such remaining equity and the book value of the same shall be included in profit or loss for the current period, and other comprehensive income and Other Changes of Owner's Equity which have been recognised before the control over the investee is obtained shall be carried forward in full.

Where the disposal of subsidiaries' equity investments till the loss of control by stages through multiple transactions belongs to a package deal, the accounting treatment shall be made by taking each transaction as the transaction where the subsidiaries' equity investments are disposed and the corresponding control is lost; before the loss of control, the difference between the disposal price and the book value of the long-term equity investment corresponding to the equity disposed shall be firstly recognised as other comprehensive income in the individual financial statements, and at the loss of control, all transferred to the profit or loss for the current period when the control is lost. Where the aforesaid disposal does not belong to a package deal, the accounting treatment shall be made respectively for each transaction.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XIV) Investment properties

Investment properties are properties held either to earn rentals or for capital appreciation or for both, which include a land use right that is leased out, a land use right held for transfer upon capital appreciation and a building that is leased out (including buildings after self-completion of construction or development for the purpose of leasing and buildings that is being constructed or developed for the purpose of leasing in future).

Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss for the current period in which they are incurred.

The existing investment properties are measured using the fair value model. The carrying amount of investment properties is adjusted based on their fair value at the balance sheet date, and the difference between the fair value and the original carrying amount is recognised in profit or loss for the current period.

#### (XV) Fixed assets

##### 1. *Recognition and initial measurement of fixed assets*

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of over one accounting year. A fixed asset is recognised only when:

- (1) it is probable that the economic benefits associated with the fixed assets will flow to the enterprises;
- (2) the cost of the fixed assets can be reliably measured.

The fixed assets are initially measured at cost (and by taking the impact of expected disposal costs).

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss for the current period in which they are incurred.

##### 2. *Depreciation methods*

Fixed assets are depreciated using the straight-line method. The depreciation rates are determined according to the categories, estimated useful lives and estimated net residual rates of fixed assets. For the fixed assets with provision for impairment, the depreciation amount is determined based on the carrying amount after deducting the impairment provision and the remaining useful life in the future period. Where the parts of a fixed asset have different useful lives or cause economic benefits for the enterprise in different ways, different depreciation rates or depreciation methods shall apply, and each part is depreciated separately.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XV) Fixed assets (Continued)

##### 2. Depreciation methods (Continued)

The depreciation methods, depreciation years, residual value rates and annual depreciation rates of various fixed assets are as follows:

Category	Depreciation methods	Depreciation years (years)	Residual value rate (%)	Annual depreciation rates (%)
Buildings and structures	Straight-line method	35	5	2.71
Medical equipment	Straight-line method	3-10	0-5	9.50-33.33
Motor vehicles	Straight-line method	4-10	5	9.50-23.75
Electronic equipment and other equipment	Straight-line method	3-10	0-5	9.50-33.33

##### 3. Disposal of fixed assets

A fixed asset is derecognised on disposal or when no economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sales, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

#### (XVI) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the construction in progress ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation is charged starting from the following month.

#### (XVII) Borrowing costs

##### 1. Recognition criteria of capitalisation of borrowing costs

The borrowing costs incurred to the Company and directly attributable to the acquisition and construction or production of assets eligible for capitalisation should be capitalised and recorded into relevant asset costs; other borrowing costs should be recognised as costs according to the amount incurred and be included into profit or loss for the current period.

Assets eligible for capitalisation refer to fixed assets, investment properties, inventories and other assets which may reach their intended use or sale status only after long-time acquisition and construction or production activities.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XVII) Borrowing costs (Continued)

##### 2. Capitalisation period for borrowing costs

Capitalisation period refers to the period from the beginning of capitalisation to the cease of capitalisation, excluding the period of capitalisation suspension of borrowing costs.

Capitalisation shall start when the following conditions are satisfied simultaneously:

- (1) Asset expenditures, which include those incurred by cash payment, the transfer of non-cash assets or the undertaking of interest-bearing debts for acquiring and constructing or producing assets eligible for capitalisation, have already been incurred;
- (2) Borrowing costs have already been incurred;
- (3) The acquisition and construction or production activities which are necessary to prepare the assets for their intended use or sale have already been started.

Capitalisation of borrowing costs should be ceased when the acquired and constructed or produced assets eligible for capitalisation have reached their intended use or sale status.

##### 3. Capitalisation suspension period

If the acquisition, construction or production activities of assets eligible for capitalisation are abnormally interrupted and such interruption lasts for more than 3 months, the capitalisation of borrowing costs should be suspended; if the interruption is necessary for the acquired, constructed or produced assets eligible for capitalisation to reach the working condition for their intended use or sale, the borrowing costs will continue to be capitalised. Borrowing costs incurred during the interruption are recognised as profit or loss for the current period and the borrowing cost shall continue to be capitalised until the acquisition, construction or production of the assets restarts.

##### 4. Measurement method of capitalisation rate and capitalised amounts of borrowing costs

For the specific borrowings obtained for the acquisition, construction or produce of an asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For general borrowings utilised for the acquisition, construction or produce of an asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalization of the general borrowings is determined by the weighted average of the excess of accumulated capital expenditure over capital expenditure of the special borrowings multiplied by the capitalisation rate of the utilised general borrowings. The capitalisation rate is determined based on the weighted average effective interest rate for general borrowings.

During the period for capitalisation, the exchange differences arising from translation of the principal and interest of the specific borrowings denominated in foreign currency should be capitalised, and included in the cost of assets eligible for capitalisation. The exchange differences arising from translation of the principal and interest of borrowings denominated in foreign currency other than the specific borrowings denominated in foreign currency should be included in profit or loss for the current period.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XVIII) Intangible assets

##### 1. Valuation method of intangible assets

- (1) Intangible assets are initially measured at cost upon acquisition;

The costs of an externally purchased intangible asset include the purchase price, relevant taxes and expenses paid, and other expenditures directly attributable to putting the asset into condition for its intended use.

- (2) Subsequent measurement

The Company shall analyse and judge the useful life of intangible assets upon acquisition.

As for intangible assets with a finite useful life, they are amortized over the term in which economic benefits are brought to the firm; if the term in which economic benefits are brought to the firm by an intangible asset cannot be estimated, the intangible asset shall be taken as an intangible asset with indefinite useful life, and shall not be amortized.

##### 2. Estimated useful lives for the intangible assets with finite useful life

Item	Estimated useful lives	Amortisation method	Basis
Land use rights	40-50	Straight-line method	Set out in land use right certificate
Software	5	Straight-line method	Estimated economic life
Contractual right to provide management services	20-30	Straight-line method	Estimated economic life
Medical practicing qualification	5-20	Straight-line method	Estimated economic life
Trademark rights	10	Straight-line method	Estimated economic life

##### 3. Specific criteria for classifying research and development phases

Expenditure on an internal research and development project of the Company is classified into expenditure on the research phase and expenditure on the development phase.

Research phase: Research phase is the stage when creative and planned investigation and research activities are conducted to acquire and understand new scientific or technological knowledge.

Development phase: Development phase is the phase when the research achievements and other knowledge are applied to a plan or design, prior to the commercial production or use, so as to produce any new or substantially improved material, device or product.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XVIII) Intangible assets(Continued)

##### 4. *Criteria for capitalisation of development expenditures*

The research expenditure is included in profit or loss for the current period when it incurred. The development expenditure is recognised as intangible assets when it meets the following conditions at the same time, and is included in profit or loss for the current period when it fails to meet the following conditions:

- (1) It is technically feasible to complete the intangible assets so that they can be used or sold;
- (2) The Company has intention to complete the intangible assets and use or sell them;
- (3) The way in which the intangible asset generates economic benefits, including the ability to prove the existence of a market for the products produced using the intangible asset or the existence of a market for the intangible asset itself, and the usefulness of the intangible asset if it is to be used internally;
- (4) The Company has sufficient technical, financial and other resources support to complete the development of the intangible assets, thereafter, has the ability to use it or sell it;
- (5) The expenditure attributable to the development stage of the intangible assets can be reliably measured.

If the expenditures cannot be distinguished between the research phase and development phase, all of which should be included in profit or loss for the current period.

#### (XIX) Impairment of long-term assets

Long-term assets, such as long-term equity investment, fixed assets, construction in progress, right-of-use assets, intangible assets with finite useful lives and oil and gas assets are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an asset impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill arising from a business combination, intangible assets with indefinite useful lives and intangible assets that are not yet ready for use are tested for impairment at least at the end of each year, regardless of whether there is an indication of impairment.

When the Company carry out impairment test to goodwill, the Company shall, as of the purchasing day, allocate on a reasonable basis the carrying value of the goodwill formed by business combination to the relevant asset groups, or if there is a difficulty in allocation, to allocate it to the sets of asset groups. The relevant asset group or sets of asset groups is an asset group or sets of asset groups that can benefit from the synergies of a business combination.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XIX) Impairment of long-term assets (Continued)

For the purpose of impairment test on the relevant asset groups or the sets of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or sets of asset groups related to goodwill is possible, an impairment test will be made firstly on the asset groups or sets of asset groups not containing goodwill, thus calculating the recoverable amount and comparing it with the relevant carrying value so as to recognize the corresponding impairment loss. Then the Company will make an impairment test on the asset groups or sets of asset groups containing goodwill, and compare the carrying 0.5 (tmpa ddre )0.scompare T\* [(asset )0.5 (grouasset erm a

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXII) Employee benefits(Continued)

##### 2. *Accounting treatment on post-employment benefits*

The Company classifies post-employment benefits into either defined contribution plans or defined benefit plans. Defined contribution plans mean the post-employment benefits that the Company only contributes a fixed amount to an independent fund and no longer bears other payment obligation; defined benefit plans are post-employment benefits other than defined contribution plans. In this reporting period, the post-employment benefits of the Company primarily comprise basic pension insurance and unemployment insurance and both of them are defined contribution plans.

The Company pays basic pension insurance and unemployment insurance in accordance with the relevant provisions of the local government for the staff. During the accounting period when the staff provides service, the Company calculates the amount payable in accordance with the local stipulated basis and proportions which will be recognized as liabilities, and the liabilities would be charged into profit or loss for the current period or costs of assets.

##### 3. *Accounting treatment on termination benefits*

Where the Company provides termination benefits to employees, the employee compensation liability arising from the termination benefits shall be recognized and included in profit or loss for the current period in the following cases (whichever the earliest): when the Company cannot unilaterally withdraw the termination benefits provided due to the termination of labor relationship plan or dismissal proposal; or when the Company recognizes costs or expenses associated with a reorganization involving the payment of termination benefits.

#### (XXIII) Provisions

The Company shall recognize the obligations related to contingencies as provisions, when all of the following conditions are satisfied:

- (1) the obligation is a present obligation of the Company;
- (2) it is probable that an outflow of economic benefits from the Company will be required to settle the obligation;
- (3) the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation.

Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXIII) Provisions (Continued)

Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. Otherwise, the best estimate is determined based on the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome.
- Where the contingency involves multiple items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

Where all or some of the expenditure required to settle an estimated liability is expected to be reimbursed by a third party, the reimbursement is separately recognized as an asset when it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement is limited to the carrying amount of the provisions.

If the Company reviews the carrying amount of the estimated liabilities at the balance sheet date and there is conclusive evidence that the carrying amount cannot reflect the current best estimate, the carrying amount is adjusted based on the current best estimate.

#### (XXIV) Share-based payments

A share-based payment of the Company is a transaction in which the Company grants equity instruments or assumes liabilities that are determined based on equity instruments, in exchange for services rendered by employees or other parties. Share-based payments of the Company are divided into equity-settled share-based payments and cash-settled share-based payments.

##### 1. *Equity-settled share-based payment and equity instrument*

The equity-settled share-based payment in return for services of employees shall be measured at the fair value of the equity instrument granted to the employees. For share-based payment transactions with immediate vesting rights, the related costs or expenses are included at the grant date at the fair value of the equity instruments, with a corresponding increase in capital reserve. For share-based payment transactions which is exercisable after the vesting period or subject to the required performance conditions, the Company included the services received in the current period to the related costs or expenses based on the best estimate of the number of vesting equity instruments at the fair value at the grant date at each balance sheet date in the vesting period, with a corresponding increase in capital reserve.

If the terms of the equity-settled share-based payment are amended, the Company shall recognize the services received at least based on the situation before the amendment was made. In addition, any amendment resulting in the increase of the fair value of the equity instrument granted or changes that are beneficial to the staff on the amendment date, will be recognized as an increase in the service received.

If the granted equity instruments are cancelled during the vesting period, the Company treats the cancellation of the granted equity instruments as an accelerated exercise of rights by immediately crediting the amount to be recognized during the remaining vesting period to the profit or loss of the current period and simultaneously recognizing the capital reserve. However, if new equity instruments are granted and they are verified at the granting date of new equity instrument as alternatives vested to cancel equity instruments, the treatment on the new equity instrument is in conformity with the modified treatment on disposal of original equity instrument.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXIV) Share-based payment(Continued)

##### 2. *Cash-settled share-based payments and equity instrument*

A cash-settled share-based payment shall be measured at fair value of liability calculated and confirmed based on the shares or other equity instruments undertaken by the Company. For share-based payment transactions with immediate vesting rights, the fair value of the liability undertaken by the enterprise shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly. For share-based payment transactions which are exercisable after the vesting period or subject to the required performance conditions, the services received in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the Company at each balance sheet date in the vesting period. For each of the balance sheet date and settlement date before the settlement of the relevant liabilities, fair value of the liabilities will be remeasured and the changes will be included in the profit or loss for the current period.

#### (XXV) Preferred shares, perpetual bonds and other financial instruments

In accordance with the terms of the contract and the economic substance of the issued preference shares/perpetual bonds reflected therein rather than in legal form only, the Company classifies the financial instrument or its components as financial assets, financial liabilities or equity instruments upon initial recognition.

Financial instruments such as perpetual bonds/preference shares issued by the Company meeting one of the following conditions, shall be classified as financial liabilities as a whole or its components at initial recognition:

- (1) The Company cannot unconditionally avoid contractual obligations performing by delivering cash or other financial assets;
- (2) Contract obligations including delivery of variable number of own equity instruments for settlement;
- (3) It includes derivative instruments (such as rights to convert into shares, etc.) that are settled by their own equity, and the derivative instruments cannot exchange fixed amount of cash or other financial assets with fixed amount of their own equity instruments for settlement;
- (4) There are contract terms that indirectly form contractual obligations;
- (5) When the issuer liquidates, the perpetual bonds are in the same order as the ordinary bonds and other debts issued by the issuer.

Financial instruments such as perpetual bonds/preference shares that do not meet any of the above conditions shall be classified as equity instruments at initial recognition.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXVI) Revenue

When the customer obtains control of relevant goods or services, the Company recognizes revenue based on the amount of consideration that is expected to be entitled to obtain.

##### 1. *Accounting policies adopted for revenue recognition and measurement*

The Company recognizes revenue when the performance obligation in a contract is fulfilled, namely the customer obtains control of relevant goods or services. Control of a good or service refers to the ability to direct the use of the good or service, and obtain substantially all of the benefits from the goods or services.

If a contract contains two or more performance obligations, at the commencement of the contract, the Company allocates the transaction price into each individual performance obligation according to the relative proportion of each individual selling price of goods or services committed by individual performance obligation, and recognizes the revenue according to the transaction price allocated to each individual performance obligation.

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties and those expected to be refunded to the customer. The Company considers the terms of the contract and its customary business practices to determine the transaction price. When determining the transaction price, the Company considers the effects of variable consideration, the existence of a significant financing component in the contract, non-cash consideration and consideration payable to a customer. The Company determines the transaction price that includes variable considerations based on the amount not exceeding the revenue accumulatively recognized which is not likely to be significantly reversed when the relevant uncertainty disappears. Where there are significant financing elements in the contract, the Company recognizes the transaction price at an amount that reflects the price that a customer would have paid for the goods or services if the customer had paid in cash when the customer had obtained control over such goods or services. The difference between the transaction price and the amount of contract consideration is amortized using an effective interest method over the contract term.

When one of the following conditions is satisfied, the Company is considered to have fulfilled an obligation within a certain period of time. Otherwise, the Company is considered to have fulfilled an obligation at a certain point in time:

- At the same time when the Company fulfills the obligation, the customer immediately obtains and consumes the economic benefits brought about by the Company's performance.
- The customers can control the goods under construction in the course of the Company's performance.
- Goods produced in the course of the Company's performance are irreplaceable. In addition, during the entire contract period, the Company has the right to collect the payments for the cumulatively completed parts of performance.

Where performance of a single service contract takes place over a certain period of time, revenue should be recognized as performance takes place, except where the stage of performance cannot be determined. The Company considers the nature of the goods or services and adopts the output method or the input method to determine the fulfillment progress of the performance. When the fulfillment progress of the performance cannot be determined reasonably, but is expected to recover the costs incurred, the Company should recognize revenue only to the extent of the cost until a reliable measure of progress can be made.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXVI) Revenue(Continued)

##### 1. Accounting policies adopted for revenue recognition and measurement (Continued)

For a performance obligation satisfied at a point in time, the Company shall recognize revenue when the customer obtains control of relevant goods or services. In judging whether customers obtain control of goods or services, the Company considers the following indications:

- the Company enjoys the right to collect cash on the goods or services, that is, the customer has the obligation to pay for the goods or services at the present time.
- the Company has transferred the legal ownership of the commodity to the customer, that is, the customer has the legal ownership of the commodity.
- the Company has transferred the commodity in kind to the customers, that is, the customers have actually taken possession of the goods.
- the Company has transferred the main risks and rewards in the ownership of the commodity to its customers, that is, the customers have acquired the main risks and rewards in the ownership of the commodity.
- the customer has accepted the goods or services.

#### (XXVII) Contract costs

Contract costs comprise contract performance costs and contract acquisition costs.

The costs incurred by the Company for the performance of the contract which do not fall under the scope of the standards relating to inventories, fixed assets and intangible assets are recognized as an asset as contract performance costs when the following conditions are met:

- The cost is directly related to a current or expected contract.
- The cost increases the resources of the Company to fulfill its performance obligations in the future.
- The cost is expected to be recovered.

If the incremental cost incurred by the Company in obtaining the contract can be expected to be recovered, the contract acquisition cost shall be recognized as an asset.

Assets related to the cost of the contract are amortized on the same basis as the revenue recognition of the goods or services related to the asset; however, if the amortization period of the contract acquisition cost is less than one year, the Company will include it into profit or loss for the current period as incurred.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXVII) Contract costs (Continued)

For assets related to contract costs whose carrying amount is higher than the difference between the following two items, the Company will make provision for impairment for the excess and recognize it as asset impairment loss:

1. The remaining consideration expected to be obtained by the transfer of goods or services related to the asset;
2. The cost expected to be incurred for the transfer of the relevant goods or services.

If the above-mentioned excess is higher than the book value of such assets as a result of any subsequent change of impairment factors in the previous period, the provision for impairment of assets previously made shall be reversed and included in profit or loss for the current period as incurred to the extent the book value of the reversed asset shall not exceed the book value of the asset on the date of the reverse assuming no provision for impairment is made.

#### (XXVIII) Government grants

##### 1. *Types*

Government grants are monetary assets or non-monetary assets obtained by the Company from the government for free, and are divided into government grants related to assets and government grants related to income.

Government grants related to assets are those obtained by the Company for the purposes of acquisition, construction or other project that forms a long-term asset. Government grants related to income refer to the government grants other than those related to assets.

##### 2. *Timing for recognition*

Government grants are recognized when the Company can comply with the conditions attached to them and when they can be received.

##### 3. *Accounting treatment*

Asset-related government grants shall be used to offset the carrying amount of relevant asset or recognized as deferred income. The amount recognized as deferred income shall be recorded in profit or loss for the current period by installments in a reasonable and systematic way over the useful life of the relevant assets (the government grants related to the Company's daily activities shall be included in other income; and the government grants unrelated to the Company's daily activities shall be included in non-operating income);

Government grants related to income that are used to compensate relevant costs or losses of the Company in subsequent periods are recognized as deferred income and recorded in profit or loss for the current period when such costs and losses are recognized (government grants related to the Company's daily activities shall be included in other income; government grants unrelated to the Company's daily activities shall be included in non-operating income) or offset relevant costs or losses; and the grants used to compensate relevant costs or losses that have been incurred by the Company are recorded directly in profit or loss for the current period (government grants related to the Company's daily activities shall be included in other income; government grants unrelated to the Company's daily activities shall be included in nonoperating income) or offset relevant costs or losses.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXVIII) Government grants(Continued)

##### 3. Accounting treatment (Continued)

The interest subsidies for policy-related preferential loans obtained by the Company are divided into two types and subject to accounting treatment separately:

- (1) If the interest grants paid to the bank and then the bank provides bank loans to the Company with interest rate in preferential policy, the Company will regard the borrowing amount received as the initial value and calculate the principle of borrowing and borrowing costs based on the interest rate in preferential policy.
- (2) If the interest grants paid directly to the Company, the Company will deduct the interest grants from borrowing costs.

#### (XXIX) Deferred tax assets and deferred tax liabilities

Income tax comprises current and deferred income tax. Current tax and deferred tax are recognized in profit or loss for the current period except to the extent that they relate to a business combination or items recognized directly in equity (including other comprehensive income).

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences).

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. For deductible losses and tax credits that can be reversed in the future years, deferred tax assets shall be recognized to the extent that it is probable that taxable profit will be available in the future to offset the deductible losses and tax credits.

Save for exceptions, deferred tax liabilities shall be recognized for the taxable temporary difference.

The exceptions for not recognition of deferred tax assets and liabilities include:

- the initial recognition of the goodwill;
- transactions or matters other than business combinations in which neither profit nor taxable income (or deductible loss) will be affected when transactions occur.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXIX) Deferred tax assets and deferred tax liabilities (Continued)

Deferred tax liabilities are recognized for temporary differences arising from investments in subsidiaries, joint ventures and associates, except where the Company is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not be reversed in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, joint ventures and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilized, the corresponding deferred tax assets are recognized.

At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the applicable tax rates during the period when the relevant assets are expected to be recovered or the relevant liabilities are expected to be settled in accordance with the provisions of the tax law.

The carrying amount of a deferred tax asset is reviewed at the balance sheet date, and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the future against which the benefits of the deferred tax asset will be utilized. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

When the Company has a legally enforceable right to set-off and intends either to settle on a net basis or to acquire the tax asset and settle the tax liability simultaneously, current tax assets and current tax liabilities shall be presented as the net amount after offsetting.

At the balance sheet date, deferred tax assets and deferred tax liabilities are offset if all of the following conditions are met:

- When the taxable entity has the legal right to set off current tax assets and current tax liabilities on a net basis;
- When the deferred tax assets and deferred tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax authority, or related to different entities liable to pay tax but the relevant entities intend to settle on a net basis or to acquire the tax assets and settle the tax liabilities simultaneously in the future period in which significant deferred tax assets and liabilities would be reversed.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXX) Lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of one or more identified asset(s) for a period of time in exchange for consideration.

For a contract that contains multiple separate leases, the Company separates and accounts for each lease component as a lease separately. For a contract that contains lease and non-lease components, the lessee and lessor separate the lease and non-lease components.

If the rent reduction or delay payment or other rental reductions of existing lease contracts arising from the COVID-19 pandemic, and the following conditions are fulfilled, the Company adopts simplified methods for all rental options, does not assess whether leasing changes occur, nor re-evaluates the classification of the lease:

- The lease consideration after the concession is reduced or basically unchanged compared with before, and the lease consideration is not discounted or discounted at the discount rate before the concession;
- After comprehensive consideration of qualitative and quantitative factors, it is determined that there is no significant change in other terms and conditions of the lease.

#### 1. *The Company as a lessee*

##### (1) Right-of-use assets

At the commencement date of lease term, the Company recognizes right-of-use assets for leases (excluding short-term leases and leases of low-value assets). Right-of-use assets are measured initially at cost. Such cost comprises:

- the amount of the initial measurement of lease liability;
- lease payments made at or before the inception of the lease less any lease incentives already received (if there is a lease incentive);
- initial direct costs incurred by the Company;
- the costs of the Company expected to be incurred for dismantling and removing the leased asset, restoring the site on which the leased asset is located or restoring it to the condition as agreed in the terms of the lease, except those incurred for the production of inventories.

The Company adopts straight-line method to accrue the depreciation of the right to use assets. If there is reasonable certainty that the Company will obtain the ownership of a leased asset at the end of the lease term, the Company depreciates the leased asset over its remaining useful life; otherwise, the Company depreciates the leased asset over the shorter of the lease term and its remaining useful life.

The Company determines whether the right-of-use assets have been impaired in accordance with the principles described in Note "III. (XIX)–Impairment of long-term assets" and conducts accounting treatment for impairment loss identified.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXX) Lease(Continued)

##### 1. *The Company as a lessee (Continued)*

##### (2) Lease liabilities

At the commencement date of lease term, the Company recognizes lease liabilities for leases (excluding short-term leases and leases of low-value assets). Lease liabilities are initially measured based on the present value of outstanding lease payment. Lease payments include:

- fixed payments (including in-substance fixed payments), less any lease incentives (if there is a lease incentive);
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable under the guaranteed residual value provided by the Company;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- payments of penalties for terminating the lease option, if the lease term reflects that the Company will exercise that option.

The Company adopts the interest rate implicit in the lease as the discount rate. If that rate cannot be determined reasonably, the Company's incremental borrowing rate is used.

The Company shall calculate the interest expenses of lease liabilities over the lease term at the fixed periodic interest rate, and include it into profit or loss for the current period or cost of relevant assets.

Variable lease payments not included in the measurement of lease liabilities are charged to profit or loss for the current period or cost of relevant assets in which they actually arise.

After the commencement date of lease term, if the following circumstances occur, the Company remeasures the lease liability and adjusts the carrying value of the right-of-use asset accordingly. If the carrying value of the right-of-use asset has been reduced to zero and the lease liability still needs to be further reduced, the Company accounts for the difference in profit or loss for the current period:

- when the assessment results of the purchase, extension or termination option change, or the actual exercise condition of the aforementioned options is inconsistent with the original assessment results, the Company remeasures the lease liabilities in accordance with the present value calculated based on the lease payments after changes and the revised discount rate;
- when in-substance fixed payments, the amount expected to be payable under the guaranteed residual value or the index or rate arising from the confirmation of lease payments changed, the Company remeasures the lease liabilities in accordance with the present value calculated based on the lease payments after changes and the initial discount rate. However, if the lease payments change is due to a change in a floating interest rate, a revised discount rate is used.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXX) Lease(Continued)

##### 1. *The Company as a lessee (Continued)*

##### (3) Short-term leases and leases of low-value assets

The right-of-use asset and lease liability are not recognized by the Company for short-term leases and leases of low-value assets, and the relevant lease payments are included in profit or loss for the current period or costs of relevant assets in each period of the lease term on a straight-line basis. Short-term leases are defined as leases with a lease term of not more than 12 months from the commencement date and excluding a purchase option. Leases of low-value assets are defined as leases with underlying low value when new. Where the Company subleases or expects to sublease a leased asset, the original lease shall not belong to a lease of low value asset.

##### (4) Lease change

The Company will account for the lease change as a separate lease if the lease changes and meets the following conditions:

- the lease change expands the scope of lease by increasing the rights to use one or more leased assets;
- the increased consideration and the individual price of the expanded part of the lease are equivalent to the amount adjusted for the contract.

If the lease change is not accounted for as a separate lease, the Company shall re-allocate the consideration of a changed contract, re-determine the lease term, and remeasure the lease liabilities by the present value calculated from the changed lease payments and revised discount rate on the effective date of the lease change.

If the lease change results in a narrower lease or a shorter lease term, the Company reduces the carrying amount of the right-of-use asset accordingly, and recognizes the related gains or losses from partially or completely terminated leases into profit or loss for the current period. For other lease change that cause the lease liabilities to be remeasured, the Company adjusts the carrying amount of the right-of-use assets accordingly.

##### (5) Rental concessions related to the COVID-19 pandemic

For simplified methods related to COVID-19 pandemic, the Company does not assess whether leasing changes occur, continues to calculate the interest cost of leased liabilities in accordance with the discount rate before concession and include it to profit or loss for the current period, and continues to depreciate the assets in accordance with the method before concession. In case of rent reduction, the Company will treat the reduced rent as the amount of variable lease payment. When the original rent payment obligation is relieved by reaching a concession agreement, the cost or expense of relevant assets will be offset according to the discount amount of the undiscounted or pre-concession discount rate, and the lease liabilities will be adjusted accordingly; if the payment of rent is delayed, the Company shall offset the lease liabilities recognized in the previous period at the time of actual payment.

For short-term leases and leases of low value assets, the Company continues to include the original contract rent into the relevant asset costs or expenses in the same way as before the concession. In case of rent reduction, the Company will treat the reduced rent as the variable lease payment and offset the relevant asset costs or expenses during the reduction period; if the payment of rent is delayed, the Company recognizes the rent payable as payable in the original payment period and offsets the payable recognized in the previous period when it is actually paid.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXX) Lease(Continued)

##### 2. *The Company as a lessor*

At the commencement date of lease term, the Company classifies leases as finance leases and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset, irrespective of whether the ownership of the asset is eventually transferred. An operating lease is a lease other than a finance lease. As a sub-leasing lessor, the Company classifies the sub-leases based on the right-of-use assets of the original leases.

##### (1) Accounting treatment of operating leases

The lease payments derived from operating leases are recognized as rental income on a straight-line basis over the respective lease terms. Initial direct costs relating to operating leases to be incurred by the Company shall be capitalized and then included in profit or loss for the current period by stages at the same base as the recognition of rental income over the lease term. The variable lease payments not included in the measurement of lease payments shall be recognized in profit or loss for the current period in which they are occurred. If a change in operating leases occurs, the Company accounts for it as a new lease from the effective date of the change, and the amount of lease payment received in advance or receivable in connection with the lease prior to the change is considered to be the payments of the new lease.

##### (2) Accounting treatment of finance leases

At the commencement date of lease term, the Company recognizes finance lease receivable and derecognizes the finance lease asset. The finance lease receivable is initially measured at an amount equal to the net investment in the lease. Net investment in the lease is the sum of the unguaranteed residual value and the present value of the lease payments receivable which were not received at the commencement date of lease term, discounted at the interest rate implicit in the lease.

The Company calculates and recognizes interest income in each period during the lease term, based on a constant periodic interest rate. The derecognition and impairment losses of finance lease receivable are accounted for in accordance with the Note III. (X) Financial instruments”.

Variable lease payments not included in the measurement of the net investment in the lease are included in profit or loss for the current period in which they are occurred.

When a finance lease changes and the following conditions are simultaneously met, the Company accounts for the lease change as a separate lease:

- The change expands the scope of lease by adding the right to use one or more leased assets;
- The consideration and the separate price of the expanded scope of lease are equivalent to the amount adjusted according to the contract.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXX) Lease(Continued)

##### 2. The Company as a lessor (Continued)

##### (2) Accounting treatment of finance leases (Continued)

Where a change in a finance lease is not accounted for as a separate lease, the Company accounts for the lease after the change according to the following situation:

- In case where the lease would have been classified as an operating lease assuming the modification became effective at the commencement date of the lease, the Company accounts for it as a new lease from the effective date of the modification and the net investment in the lease prior to the effective date of the modification is taken as the carrying amount of the leased assets;
- In case where the lease would have been classified as a finance lease assuming the modification became effective at the commencement date of the lease, the Company conducts accounting treatment in accordance with the policy regarding the modification or renegotiation of contracts described in this Note“ III. (X) Financial instruments”.

##### (3) Rental concessions related to the COVID-19 pandemic

- For operating leases that adopt the simplified methods of rental concessions related to the COVID-19 pandemic, the Company continues to recognize the original contract rent as rental income in the same way as before the concession. In the event of a rental reduction, the reduced rental is treated as variable lease payments by the Company, and the rental income will be offset during the concession period; in the event of a deferred rental collection, rent collection is recognized as receivables by the Company during the original collection period, and the previously recognized receivables will be offset when the actual collection is made.
- For finance leases that adopt the simplified methods of rental concessions related to the COVID-19 pandemic, the Company continues to calculate the interest based on the discount rate consistent with that before the concession and recognize it as rental income. In the event of a rental reduction, the reduced rental will be treated as variable lease payments by the Company. When the rent collection right is waived, such as when a reduction agreement is reached, the amount discounted at the undiscounted or pre-reduction discount rate is offset against the originally recognized lease income, and the shortfall is credited to investment income, and the finance lease receivables are adjusted accordingly. In the event of a deferred rental collection, the previously recognized finance lease receivables will be offset when the actual collection is made.

#### (XXXI) Segment report

The Company identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Company that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Company's management to make decisions about resources to be allocated to the segment and to assess its performance; and (3) for which the information on financial position, operating results and cash flows is available to the Company. Two or more operating segments that have similar economic characteristics and satisfy certain conditions can be aggregated into one single operating segment.



## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### III. Significant accounting policies and accounting estimates (Continued)

#### (XXXIII) Changes in significant accounting policies and accounting estimates

##### 1. Changes in significant accounting policies

The Notice on Issues Related to the Application of 'Accounting Treatment of COVID-19 Related Rent Concessions' (《企业会计准则解释第11号》) has been implemented.

On May 19, 2022, the Ministry of Finance issued the Notice on Issues Related to the Application of 'Accounting Treatment of COVID-19 Related Rent Concessions' (Cai Kuai [2022] No. 13), which re-adjusts the application scope of simplified approach for the COVID-19 pandemic-related concessions, and abolishes the previous limitation that the simplified method shall be applied to the concessions that are only for lease payments due before June 30, 2022. For rent concessions on lease payments due after June 30, 2022 directly arising from COVID-19 pandemic, lessees and lessors can still continue to elect to adopt the simplified method as provided in the Accounting Treatment of COVID-19 Related Rent Concessions with other applicable conditions remain unchanged.

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

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### IV. Taxation

#### (I) Major tax categories and tax rates

Tax categories	Tax basis	Tax rate
Value-added tax ("VAT")	The VAT payable is the difference between output tax (calculated based on sales of goods and taxable service income under the tax laws) and the deductible input tax of the period	3%, 5%, 6%, 13%
Urban maintenance and construction tax	Based on VAT paid	7%
Educational surcharge	Based on VAT paid	5%
Enterprise income tax	Based on taxable profits	15%, 20%, 25%

Companies subject to different income tax rates are disclosed as follows

Taxpayer	Income tax rate
Wenzhou Kangning Hospital Co., Ltd.	15%
Zhejiang Jerinte Health Technology Co., Ltd.	15%
Yiwu Kangning Hospital Management Co., Ltd.	20%

#### (II) Preferential tax treatment

- Pursuant to the relevant requirements under the Circular on the Overall Promotion of Pilot Program of Levying VAT in Place of Business Tax (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Taxation Administration, the Company and its subsidiaries comply with the provisions of the Administrative Measures on Medical Institutions (Order of the State Council No. 149) issued by the State Council and the Implementation Measures of the Administrative Measures on Medical Institutions (Order of the Ministry of Health No. 35) issued by the Ministry of Health and the medical services provided by them are exempted from value-added tax upon the registration and obtaining the Medical Institution Practicing License (《医疗机构执业许可证》).
- Pursuant to relevant tax regulations, during the reporting period, the revenue from judicial forensic services provided by the Wenzhou Kangning Judicial Forensic Centre, a subsidiary of the Company, shall be subject to VAT at the rate of 3%.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### IV. Taxation (Continued)

#### (II) Preferential tax treatment (Continued)

3. Pursuant to the relevant tax regulations, during the period from January to June 2021, the rental income of the Company's subsidiary, Wenzhou Guoda Investment Co., Ltd., arising from the rental of the properties purchased before 30 April 2016 was subject to the simple VAT calculation method with the rate of 5%. Pursuant to the relevant tax regulations, during the period from January to June 2021, the sales of the properties built before 30 April 2016 by Wenzhou Guoda Investment Co., Ltd. was subject to the simple VAT calculation method with the rate of 5%. The advance proceeds from the sales of real estate is subject to the advance tax rate of 3% and should be prepaid.
4. Pursuant to the Measures for the Implementation of the Pilot Plan for Levying VAT in Place of Business Tax under the Circular on the Overall Promotion of Pilot Program of Levying VAT in Place of Business Tax (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Taxation Administration, during the reporting period, the revenue from rendering of management and consultation services provided by the Company and its subsidiaries was subject to VAT at the rate of 6% or 3%.
5. On 16 December 2021, the Company obtained the Certificate of High and New Technology Enterprise (No. GR202133010023) issued by the Science and Technology Department of Zhejiang Province, with a term of validity of 3 years. Under Article 28 of the Enterprise Income Tax Law of the People's Republic of China, the Company was subject to the enterprise income tax rate of 15% from 1 January 2021 to 31 December 2023.
6. On 1 December 2020, Zhejiang Jerinte Health Technology Co., Ltd., a subsidiary of the Company, obtained the Certificate of High and New Technology Enterprise (No. GR202033002789) issued by the Science and Technology Department of Zhejiang Province, with a term of validity of 3 years. Under Article 28 of the Enterprise Income Tax Law of the People's Republic of China, the company was subject to the enterprise income tax rate of 15% from 1 January 2020 to 31 December 2022.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements

#### (I) Cash at bank and on hand

Items	Balance as at the end of the period	Balance as at the end of the previous year
Cash on hand	971,773.72	374,287.07
Cash at bank	187,484,938.31	206,125,277.35
Other cash balances	278,133.74	
Total	188,734,845.77	206,499,564.42

#### (II) Financial assets held for trading

Items	Balance as at the end of the period	Balance as at the end of the previous year
Financial assets at fair value through profit or loss	3,000,000.00	3,000,000.00
Including: Investment in equity instruments	3,000,000.00	3,000,000.00
Total	3,000,000.00	3,000,000.00

#### (III) Accounts receivable

##### 1. Accounts receivable disclosed by Aging

Aging	Balance as at the end of the period	Balance as at the end of the previous year
Within 1 year	303,910,574.15	218,165,453.34
1 – 2 years	9,812,859.20	10,236,263.65
2 – 3 years	4,259,870.27	5,003,467.95
Over 3 years	3,140,407.07	
Sub-total	321,123,710.69	233,405,184.94
Less: Provision for bad debts	9,365,835.23	8,104,937.93
Total	311,757,875.46	225,300,247.01

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (III) Accounts receivable (Continued)

##### 2. Accounts receivable disclosed by classification of provision for bad debts

Category	Balance as at the end of the period					Balance as at the end of the previous year				
	Book balance	Provision for bad debts		Proportion of provision	Book value	Book balance	Provision for bad debts		Proportion of provision	Book value
	Amount	Amount	(%)			Amount	(%)	Amount		
Provision for bad debts on the individual basis	7,247,978.61	2.26	4,590,286.39	63.33	2,657,692.22	1,932,594.16	0.83	1,932,594.16	100.00	
Including:										
Medical fees due from patients	7,247,978.61	2.26	4,590,286.39	63.33	2,657,692.22	1,932,594.16	0.83	1,932,594.16	100.00	
Provision for bad debts on the grouping basis	313,875,732.08	97.74	4,775,548.84	1.52	309,100,183.24	231,472,590.78	99.17	6,172,343.77	2.67	225,300,247.01
Including:										
Overdue days grouping	313,875,732.08	97.74	4,775,548.84	1.52	309,100,183.24	231,472,590.78	99.17	6,172,343.77	2.67	225,300,247.01
Total	321,123,710.69	100.00	9,365,835.23		311,757,875.46	233,405,184.94	100.00	8,104,937.93		225,300,247.01

Provision for bad debts on the individual basis:

Item	Balance as at the end of the period			Reason
	Book balance	Provision for bad debts	Proportion of provision (%)	
Medical fees due from patients	7,247,978.61	4,590,286.39	63.33	provision for bad debts based on Lifetime ECL
Total	7,247,978.61	4,590,286.39		

Item with provision on grouping basis:

Item	Balance as at the end of the period		
	Accounts receivable	Provision for bad debts	Proportion of provision (%)
Overdue days grouping	313,875,732.08	4,775,548.84	1.52
Total	313,875,732.08	4,775,548.84	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (III) Accounts receivable (Continued)

##### 3. Provision for bad debts provided for, reversed or recovered in the current period

Category	Balance as at the end of the previous year	Changes in the current period			Balance as at the end of the period
		Provided for/ other increase	Recovered or reversed	Written-back or written-off	
Provision for bad debts made on individual basis	1,932,594.16	2,657,692.23			4,590,286.39
Provision for bad debts made on grouping basis	6,172,343.77	1,493,290.73		2,890,085.66	4,775,548.84
Total	8,104,937.93	4,150,982.96		2,890,085.66	9,365,835.23

##### 4. Accounts receivable written off in the current period

Item	Amount written-off
Accounts receivable written off	2,890,085.66

##### 5. The top five debtors of accounts receivable as at the end of the period

Name of entities	Balance as at the end of the period		Provision for bad debts
	Accounts receivable	As a proportion in total accounts receivable (%)	
Wenzhou Medical Insurance Administrative Center Medical Insurance Treatment and Settlement Centre of Pingyang County	70,065,394.64	21.82	700,653.95
Lin Hai Medical Insurance Bureau	23,026,592.00	7.17	230,265.92
Medical Insurance Service Centre of Cangnan County	16,036,206.65	4.99	160,362.07
Yueqing Medical Insurance Centre	14,895,833.81	4.64	148,958.34
Total	12,887,239.05	4.01	128,872.39
	136,911,266.15	42.63	1,369,112.66

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (IV) Advances to suppliers

1. *Advances to suppliers presented by aging*

Aging	Balance as at the end of the period		Balance as at the end of the previous year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	11,751,451.87	99.10	9,729,168.16	98.18
1 – 2 years	58,511.20	0.49	93,133.00	0.94
2 – 3 years	24,163.99	0.20	20,209.00	0.20
Over 3 years	24,300.00	0.21	67,000.00	0.68
Total	11,858,427.06	100.00	9,909,510.16	100.00

2. *The top five receivers of advances by the balance as at the end of the period of advances to suppliers*

Receivers of advances	Balance as at the end of the period	As a proportion in total balance of advances to suppliers as at the end of the period(%)
Sichuan Kanghong Medicament Trade Co., Ltd.	1,371,036.30	11.56
Zhejiang Aiken Pharmaceutical Co., Ltd.	864,000.00	7.29
Hefei Yongji Pharmaceutical Co., Ltd.	547,413.99	4.62
Shanghai Pharmaceutical Medicine Sales Co., Ltd.	543,432.60	4.58
Hangzhou Dongfang Medical Instrument Co., Ltd.	516,825.00	4.36
Total	3,842,707.89	32.41

#### (V) Other receivables

Items	Balance as at the end of the period	Balance as at the end of the previous year
Interest receivable		
Dividend receivable		
Other receivables	29,938,365.90	63,478,701.68
Total	29,938,365.90	63,478,701.68

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (V) Other receivables (Continued)

##### 1. Other receivables

##### (1) Other receivables disclosed by aging

Aging	Balance as at the end of the period	Balance as at the end of the previous year
Within 1 year	20,483,379.67	20,302,805.00
1 – 2 years	4,096,700.18	18,712,538.68
2 – 3 years	838,693.49	4,964,193.00
3 – 4 years	2,814,221.11	21,352,668.00
4 – 5 years	1,452,266.68	2,930,000.00
Over 5 years	2,930,000.00	
Sub-total	32,615,261.13	68,262,204.68
Less: Provision for bad debts	2,676,895.23	4,783,503.00
Total	29,938,365.90	63,478,701.68

##### (2) Other receivables disclosed by classification of provision for bad debts

Category	Balance as at the end of the period					Balance as at the end of the previous year				
	Book balance		Provision for bad debts		Book value	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)		Amount	Proportion (%)	Amount	Proportion of provision (%)	
Provision for bad debts on individual basis	1,435,560.00	4.40	1,435,560.00	100.00		1,435,560.00	2.06	1,435,560.00	100.00	
Including:										
Headquarters of the Urban Construction and Comprehensive Development of Aojiang Town, Pingyang County	1,435,560.00	4.40	1,435,560.00	100.00		1,435,560.00	2.06	1,435,560.00	100.00	
Xiong Guoxiu, Min Honggen						2,156,115.00	3.16	1,698,458.00	78.77	457,657.00
Provision for bad debts on grouping basis	31,179,701.13	95.60	1,241,335.23	3.98	29,938,365.90	68,262,204.68	97.94	4,783,503.00	7.01	63,478,701.68
Including:										
Portfolio of aging credit risk	31,179,701.13	95.60	1,241,335.23	3.98	29,938,365.90	68,262,204.68	97.94	4,783,503.00	7.01	63,478,701.68
Total	32,615,261.13	100.00	2,676,895.23	/	29,938,365.90	69,697,764.68	100.00	6,219,063.00	/	63,478,701.68

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (V) Other receivables (Continued)

##### 1. Other receivables (Continued)

##### (2) Other receivables disclosed by classification of provision for bad debts (Continued)

Provision for bad debts on individual basis:

Name	Book value	Balance as at the end of the period		Reason for the provision
		Provision for bad debts	Proportion of provision (%)	
Headquarters of the Urban Construction and Comprehensive Development of Aojiang Town, Pingyang County	1,435,560.00	1,435,560.00	100.00	Expected to be unable to recover
Total	1,435,560.00	1,435,560.00		

Item with provision on grouping basis:

Name	Other receivables	Balance as at the end of the period	
		Provision for bad debts	Proportion of provision (%)
Portfolio of aging credit risk	31,179,701.13	1,241,335.23	3.98
Total	31,179,701.13	1,241,335.23	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (V) Other receivables (Continued)

##### 1. Other receivables (Continued)

##### (3) Details of provision for bad debts

	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime	Lifetime	Total
	ECL	(not credit-	ECL (credit-	
	ECL	impaired)	impaired)	
Provision for bad debts				
Balance as at the				
end of the previous year	3,085,045.00		1,698,458.00	4,783,503.00
Balance as at the end of the				
previous year that transferred/				
reversed in the current period	-36,823.07		36,823.07	
ÑTransferred to stage 2				
ÑTransferred to stage 3	-36,823.07		36,823.07	
ÑReversed to stage 2				
ÑReversed to stage 1				
Provision for the current period	203,325.33		662,173.96	865,499.29
Reversal in the current period				
Written back in the current period	2,010,212.03			2,010,212.03
Written off in the current period			2,397,455.03	2,397,455.03
Other changes			1,435,560.00	1,435,560.00
Balance as at the end of the period	1,241,335.23		1,435,560.00	2,676,895.23

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (V) Other receivables (Continued)

##### 1. Other receivables (Continued)

##### (3) Details of provision for bad debts (Continued)

Changes in book value of other receivables:

	Stage 1	Stage 2	Stage 3	
		Lifetime		
		ECL	Lifetime	
	12-month	(not credit-	ECL (credit-	
Book value	ECL	impaired)	impaired)	Total
Balance as at the end of the previous year	66,106,089.68		2,156,115.00	68,262,204.68
Balance as at the end of the previous year that transferred/ reversed in the current period	-241,340.03		241,340.03	
Ñ Transferred to stage 2				
Ñ Transferred to stage 3	-241,340.03		241,340.03	
Ñ Reversed to stage 2				
Ñ Reversed to stage 1				
Addition for the current period				
Derecognized in the current period	34,685,048.52		2,397,455.03	37,082,503.55
Other changes			1,435,560.00	1,435,560.00
Balance as at the end of the period	31,179,701.13		1,435,560.00	32,615,261.13

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (V) Other receivables (Continued)

##### 1. Other receivables (Continued)

##### (4) Provision for bad debts provided for, reversed or recovered in the current period

Category	Balance as at	Changes in the current period			Balance as at
	the end of the previous year	Provided for/ other increase	Recovered or reversed	Written-back or written-off	the end of the period
Provision for bad debts on individual basis	1,698,458.00	2,097,733.96		2,360,631.96	1,435,560.00
Provision for bad debts on grouping basis	3,085,045.00	203,325.33		2,047,035.10	1,241,335.23
Total	4,783,503.00	2,301,059.29		4,407,667.06	2,676,895.23

##### (5) Other receivables written off in the current period

Item	Amount written-off
Other receivables written off	2,397,455.03

Of which, significant other receivables which are written off include:

Name of entity	Nature of other receivables	Amount written off	Reason for written off	Procedure adopted to write off	Whether the amount arose from related transaction
Wenzhou City Kangning Psychiatric Health Research Institute ( 温州康宁精神病医院 )	Others	612,239.78	Written off by the Company as recovery is not expected	Approval by the General Manager of the Group	No
Xiong Guoxiu, Min Honggen	Others	1,781,215.25	Amount in legal dispute unrecovered after mediation	Approval by the General Manager of the Group	No
Total		2,393,455.03			

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (V) Other receivables (Continued)

##### 1. Other receivables (Continued)

##### (6) Other receivables by nature

Nature of receivables	Balance as at the end of the period	Balance as at the end of the previous year
Deposit and guarantee	23,577,997.61	8,682,306.00
Placements	4,288,330.66	11,623,500.00
Advances	1,435,560.00	11,131,467.29
Amounts due from related parties	12,877.91	26,126,516.55
Others	3,360,494.95	10,698,414.84
Total	32,615,261.13	68,262,204.68

##### (7) The top five debtors of other receivables as at the end of the period

Name of entities	Nature of receivables	Balance as at the end of the period	Aging	As a proportion of the total balance of other receivables as at the end of the period (%)	Provision for bad debts as at the end of the period
Banger Orthopedic Hospital Group Co., Ltd. € 'ö Å < ë « p ... ɓ" @! •	Deposits and guarantees	8,330,000.00	Within 1 year	25.54	83,300.00
Wenzhou Tiandu Pension Project Co., Ltd.	Deposits and guarantees	5,000,000.00	Within 1 year	15.33	
Shenzhen Sanma Technology Industry Co., Ltd.	Deposits and guarantees	2,900,000.00	Over 5 years	8.89	150,000.00
Headquarters of the Urban Construction and Comprehensive Development of Aojiang Town, Pingyang County	Advances	1,435,560.00	Over 3 years	4.40	1,435,560.00
Yan Yinxian	Placements	1,317,000.00	0-2 years	4.04	92,190.00
Total		18,982,560.00		58.20	1,761,050.00

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (VI) Inventories

Items	Balance as at the end of the period		Balance as at the end of the previous year	
	Book balance	Provision for decline in the value of inventories	Book balance	Provision for decline in the value of inventories
Turnover materials	2,242,027.51		6,165,704.39	
Commodity stocks	54,277,273.72		28,767,481.00	
Properties held for sale			2,575,286.00	
Total	56,519,301.23		37,508,471.39	

#### (VII) Other current assets

Items	Balance as at the end of the period	Balance as at the end of the previous year
Input tax to be deducted	137,228.50	
Prepaid corporate income tax	321,191.35	
Prepaid expenses	348,266.00	
Total	806,685.85	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (VIII) Long-term equity investment

Investees	Balance as at the end of the previous year	Increase in investment	Decrease in investment	Increase or decrease in the current period						Balance as at the end of the period	Balance of the impairment provision as at the end of the period
				Investment profit/loss recognized under equity method	Other comprehensive income adjustment	Other equity changes	Cash dividends or profits declared and paid	Impairment provision	Others		
Associates											
Hangzhou Anken Information Technology Co., Ltd.											
	16,645,602.49			-3,485,811.81		-3,434.59				13,156,356.09	
Wenzhou Longwan Yining Hospital Co., Ltd.											
	22,500,000.00	35,600,000.00								58,100,000.00	
Shanxi Shanda Hospital Management Co., Ltd.											
	25,574,987.90			-2,376,631.01						23,198,356.89	
Chongqing Hechuan Kangning Hospital Co., Ltd.											
	17,758,283.74			928,927.91						18,687,211.65	
Chengdu Yining Hospital Co., Ltd.											
	13,152,285.62			-1,637,500.70						11,514,784.92	
Jingyun Shuning Hospital Co., Ltd.											
	2,185,774.00	3,000,000.00		5,295.69						5,191,069.69	
Total	97,816,933.75	38,600,000.00		-6,565,719.92		-3,434.59				129,847,779.24	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (IX) Other non-current financial assets

Items	Balance as at the end of the period	Balance as at the end of the previous year
Financial assets at fair value through profit or loss	65,812,274.58	57,404,918.27
Including: Investments in equity instruments	65,812,274.58	57,404,918.27
Total	65,812,274.58	57,404,918.27

#### (X) Investment properties

*Investment properties under the fair value measurement model*

Items	Buildings and structure and related land use rights	Total
1. Balance as at the end of the previous year	107,804,936.40	107,804,936.40
2. Movements in the current period	-107,804,936.40	-107,804,936.40
Add: Outsourcing		
Less: Disposal	107,804,936.40	107,804,936.40
3. Balance as at the end of the period		

#### (XI) Fixed assets

##### 1. Fixed assets and disposal of fixed assets

Items	Balance as at the end of the period	Balance as at the end of the previous year
Fixed assets	721,846,771.52	533,743,383.81
Disposal of fixed assets		
Total	721,846,771.52	533,743,383.81

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XI) Fixed assets (Continued)

##### 2. Details of fixed assets

Items	Buildings and structure	Medical equipment	Motor vehicles	Electronic and other equipment	Total
1. Original carrying values					
(1) Balance as at the end of the previous year	521,775,799.00	113,024,169.00	5,290,548.00	52,990,199.00	693,080,715.00
(2) Increase in the current period	250,346,050.77	32,664,290.98	1,272,555.81	16,183,965.09	300,466,862.65
– Purchase	27,027,751.83	11,617,500.59	706,329.12	9,967,237.08	49,318,818.62
– Transferred from construction in progress	148,291,082.86				148,291,082.86
– Increase from business combinations	75,027,216.08	21,046,790.39	566,226.69	6,216,728.01	102,856,961.17
(3) Decrease in the current period	26,287,889.87	3,470,339.20	14,378.94	1,135,543.47	30,908,151.48
– Disposed or retired	26,287,889.87	3,470,339.20	14,378.94	1,135,543.47	30,908,151.48
(4) Balance as at the end of the period	745,833,959.90	142,218,120.78	6,548,724.87	68,038,620.62	962,639,426.17
2. Accumulated depreciation					
(1) Balance as at the end of the previous year	59,274,559.00	63,206,184.00	1,403,702.00	35,452,886.19	159,337,331.19
(2) Increase in the current period	38,684,354.31	32,915,095.74	1,219,570.70	12,672,580.85	85,491,601.60
– Provision	19,264,872.23	19,458,567.42	900,408.92	8,651,020.24	48,274,868.81
– Increase from business combinations	19,419,482.08	13,456,528.32	319,161.78	4,021,560.61	37,216,732.79
(3) Decrease in the current period	375,383.74	2,672,349.19	2,396.50	986,148.71	4,036,278.14
– Disposed or retired	375,383.74	2,672,349.19	2,396.50	986,148.71	4,036,278.14
(4) Balance as at the end of the period	97,583,529.57	93,448,930.55	2,620,876.20	47,139,318.33	240,792,654.65
3. Impairment provision					
(1) Balance as at the end of the previous year					
(2) Increase in the current period					
(3) Decrease in the current period					
(4) Balance as at the end of the period					
4. Carrying amount					
(1) Carrying amount as at the end of the period	648,250,430.33	48,769,190.23	3,927,848.67	20,899,302.29	721,846,771.52
(2) Carrying amount as at the end of the previous year	462,501,240.00	49,817,985.00	3,886,846.00	17,537,312.81	533,743,383.81

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XII) Construction in progress

##### 1. *Construction in progress and construction material*

Items	Balance as at the end of the period	Balance as at the end of the previous year
Construction in progress	43,795,718.15	134,941,286.10
Construction material		

# Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

## V. Notes to the consolidated financial statements (Continued)

### (XII) Construction in progress (Continued)

#### 3. Movements in important construction in progress for the current period

Project name	Budget RMB 0,000	Balance as at the end of the previous year	Increase in the current period	Transfer to long-term prepaid expenses in the current year	Transfer to fixed assets in the current period	Transferred to in the current period – others	Balance as at the end of the period	Cumulative investment in the project as a percentage of the budget	Progress of construction	Accumulated amount of capitalised interest	Including interest capitalised in the current period	Capitalisation rate of interest in the current period (%)	Source of fund
The decoration project of Wenzhou Kangning Hospital	871.80	3,030,566.00	7,372,880.76	9,734,691.36			782,356.00	120.64%	100.00%				Own funds
The decoration project of Huainan Kangning Hospital	560.97	3,542,616.66	2,067,071.39	5,609,690.05				100.00%	100.00%				Own funds
The decoration project of Qinjian Kangning Hospital	10,932.00	6,1342,803.64	12,632,640.45		73,975,444.09			100.00%	100.00%	3,671,561.59	998,216.44	0.05	Borrowings
The decoration project of Yongjia Kangning Hospital	7,397.39	60,278,867.17	13,595,076.90		73,873,944.07			100.00%	100.00%	3,383,665.95	729,209.53	0.05	Borrowings
The decoration project of Lucheng Yining Hospital	18,003.00	391,631.08	5,822,038.02			6,213,670.10		3.45%	40.00%	274,870.47	274,870.47	0.04	Borrowings
The decoration project of Pingyang Changqun Hospital	1,897.75	25,595.00	7,504,860.00			25,595.00	7,504,860.00	39.55%	39.55%				Own funds
The decoration project of Ouhai Yining Hospital	4,047.80		27,288,058.64			27,288,058.64	27,288,058.64	89.29%	67.25%	350,138.94	350,138.94	0.04	Borrowings
Total		128,612,081.55	76,282,627.16	15,344,381.41	147,849,388.16		41,788,944.74			7,680,256.94	2,351,434.38		

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XIII) Right-of-use assets

Items	Buildings and structure	Total
1. Original carrying value		
(1) Balance as at the end of the previous year	296,875,034.28	296,875,034.28
(2) Increase in the current period	67,943,690.23	67,943,690.23
– New leases	11,147,835.40	11,147,835.40
– Revaluation adjustment	56,795,854.83	56,795,854.83
(3) Decrease in the current period	1,548,305.00	1,548,305.00
– Disposal	404,223.00	404,223.00
– Other transfers	1,144,082.00	1,144,082.00
(4) Balance as at the end of the period	363,270,419.51	363,270,419.51
2. Accumulated depreciation		
(1) Balance as at the end of the previous year	64,262,593.72	64,262,593.72
(2) Increase in the current period	41,779,572.06	41,779,572.06
– Provision	41,779,572.06	41,779,572.06
(3) Decrease in the current period	184,016.40	184,016.40
– Disposal	196,319.71	196,319.71
– Other transfers	-12,303.31	-12,303.31
(4) Balance as at the end of the period	105,858,149.38	105,858,149.38
3. Impairment provision		
(1) Balance as at the end of the previous year		
(2) Increase in the current period		
(3) Decrease in the current period		
(4) Balance as at the end of the period		
4. Carrying amount		
(1) Carrying amount as at the end of the period	257,412,270.13	257,412,270.13
(2) Carrying amount as at the end of the previous year	232,612,440.56	232,612,440.56

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XIV) Intangible assets

Items	Land use rights	Trademark rights	Software	Medical practice qualifications	Contractual rights to provide management service	Total
1.Original carrying value						
(1)Balance as at the end of the previous year	64,166,940.00	2,829,386.13	10,828,626.00	82,837,000.00	36,973,869.00	197,635,821.13
(2)Increase in the current period	38,810,879.01	232,251.00	2,914,119.59	47,000,000.00	2,400,000.00	91,357,249.60
– Purchase	26,117,387.50	232,251.00	1,982,119.59			28,331,758.09
– Increase from business combinations	12,693,491.51		932,000.00	47,000,000.00	2,400,000.00	63,025,491.51
(3)Decrease in the current period			11,320.75		9,135,808.58	9,147,129.33
– Disposal			11,320.75		9,135,808.58	9,147,129.33
(4)Balance as at the end of the period	102,977,820.17	3,061,637.13	14,252,889.08	129,837,000.00	32,400,000.00	282,529,346.38
2.Accumulated depreciation						
(1)Balance as at the end of the previous year	6,173,772.00	49,206.72	6,828,639.00	15,396,627.82	6,650,848.02	35,099,093.56
(2)Increase in the current period	3,436,246.27	310,913.46	2,091,377.12	12,375,742.04	1,738,354.36	19,952,633.25
– Provision	2,032,754.76	308,832.12	1,841,950.70	8,608,300.16	1,738,354.36	14,530,192.10
– Increase from business combinations	1,403,491.51		249,426.42	3,767,441.88		5,420,359.81
– Others		2,081.34				
(3)Decrease in the current period					3,197,570.87	3,197,570.87
– Disposal					3,197,570.87	3,197,570.87
(4)Balance as at the end of the period	9,610,253.66	360,120.18	9,441,245.79	27,772,369.86	7,353,571.43	54,537,560.92
3.Impairment provision						
(1)Balance as at the end of the previous year						
(2)Increase in the current period						
(3)Decrease in the current period						
(4)Balance as at the end of the period						
4.Carrying amount						
(1)Carrying amount as at the end of the period	93,367,566.51	2,701,516.95	4,811,643.29	102,064,630.14	25,046,428.57	227,991,785.46
(2)Carrying amount as at the end of the previous year	57,993,168.00	2,780,179.41	3,999,987.00	67,440,372.18	30,323,020.98	162,536,727.57

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XV) Goodwill

##### 1. Changes in goodwill

Name of the investees	Balance as at the end of the previous year	Increase in the current period		Decrease in the current period		Balance as at the end of the period
		Arising from business combinations	Increases of provision for goodwill impairment	Disposal	Disposal of goodwill impairment	
Original carrying amount						
Nanjing Yining Hospital Co., Ltd.	9,271,800.00					9,271,800.00
Wenzhou Guoda Investment Co., Ltd.	8,533,389.00			8,533,389.00		690,331.47
Heze Yining Psychiatric Hospital Co., Ltd.	690,331.47					1,549,022.38
Guanxian Yining Hospital Co., Ltd.	1,549,022.38					7,784,850.00
Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd.	7,784,850.00					22,987,331.04
Beijing Yining Hospital Co., Ltd.	22,987,331.04					151,048.40
Wenzhou Yixin Health Technology Co., Ltd.	151,048.40					5,068,959.78
Huainan Kangning Hospital Co., Ltd.	5,068,959.78					6,843,288.91
Changchun Kangjin Psychological Hospital Co., Ltd.	6,843,288.91					19,416,285.97
Wenzhou Ching Hospital Co., Ltd.	19,416,285.97					13,448,537.66
Chun'an Kangning Huangfeng Hospital Co., Ltd.	13,448,537.66					51,770,194.67
Pingyang Changgeng Yining Hospital Co., Ltd.		51,770,194.67				9,677,976.76
Pujiang Yining Huangfeng Hospital Co., Ltd.		9,677,976.76				9,677,976.76
Hangzhou Yining Nursep7						

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XV) Goodwill (Continued)

##### 2. Information about the asset groups or groups of asset groups to which the goodwill belongs

All goodwill of the Company has been allocated to the related asset groups or groups of asset groups on the day of purchase, which is summarised as follows:

	Unit: RMB '0,000
Asset groups or groups of asset groups	31 December 2021
Nanjing Yining Hospital Co., Ltd.	3,648.64
Heze Yining Psychiatric Hospital Co., Ltd.	2,943.33
Guanxian Yining Hospital Co., Ltd.	1,577.88
Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd.	2,811.22
Beijing Yining Hospital Co., Ltd.	4,504.69
Wenzhou Yixin Health Technology Co., Ltd.	19.74
Huainan Kangning Hospital Co., Ltd.	1,814.27
Changchun Kanglin Psychological Hospital Co., Ltd.	2,980.63
Wenzhou Cining Hospital Co., Ltd.	7,644.59
Chun'an Kangning Huangfeng Hospital Co., Ltd.	2,446.32
Pingyang Changgeng Yining Hospital Co., Ltd.	17,817.86
Pujiang Yining Huangfeng Hospital Co., Ltd.	2,806.07
Hangzhou Yining Nursery Service Co., Ltd.	368.87
Total	51,384.11

In conducting the impairment test of goodwill, the Company compares the carrying amount of the related asset groups or groups of asset groups (including goodwill) with the recoverable amount. If the recoverable amount is lower than the carrying amount, the difference shall be recognised in profit or loss for the current period.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XV) Goodwill (Continued)

##### 3. Process of goodwill impairment test, key parameters and the recognition method of goodwill impairment loss

Asset groups or groups of asset groups	Key parameters of goodwill impairment test				
	Average number of beds in operation	Average in-patient spending per day per bed (bed/day/yuan)	Perpetuity growth rate	Net margin	Pre-tax discount rate
Nanjing Yining Hospital Co., Ltd.	216	293	2.50%	19.92%	14.00%
Heze Yining Psychiatric Hospital Co., Ltd.	257	298	2.50%	19.45%	14.00%
Guanxian Yining Hospital Co., Ltd.	124	265	2.50%	18.14%	14.00%
Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd.	281	276	2.50%	19.19%	14.00%
Beijing Yining Hospital Co., Ltd.	19	2,452	2.50%	7.02%	16.00%
Wenzhou Yixin Health Technology Co., Ltd.	–	–	2.50%	-1.68%	14.00%
Huainan Kangning Hospital Co., Ltd.	171	202	2.50%	18.52%	14.00%
Changchun Kanglin Psychological Hospital Co., Ltd.	328	205	2.50%	22.56%	14.00%
Wenzhou Cining Hospital Co., Ltd.	280	585	2.50%	12.07%	14.00%
Chun'an Kangning Huangfeng Hospital Co., Ltd.	234	388	2.50%	19.54%	14.00%
Pingyang Changgeng Yining Hospital Co., Ltd.	425	502	2.50%	11.21%	14.00%
Pujiang Yining Huangfeng Hospital Co., Ltd.	265	254	2.50%	17.21%	14.00%
Hangzhou Yining Nursery Service Co., Ltd.	72	110	2.50%	8.42%	14.00%

##### Other explanation:

Average number of beds in operation refers to the annual average number of beds used during the forecast period; average in-patient spending per day per bed refers to average daily spending amount per bed during the forecast period.

##### 4. Impact of goodwill impairment test

In 2021, due to the continuing impact of prevention and control measures of COVID-19, the business volume of Beijing Yining Hospital Co., Ltd. and Guanxian Yining Hospital Co., Ltd. had declined. During

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XVI) Long-term prepaid expenses

Items	Balance as at the end of the previous year	Increase in the current period	Amortisation in the current period	Other decrease	Balance as at the end of the period
Renovation expenses	153,550,839.60	42,705,814.66	38,824,410.71	7,103,831.15	150,328,412.40
Lease expenses		185,000.00	12,375.00		172,625.00
Total	153,550,839.60	42,890,814.66	38,836,785.71	7,103,831.15	150,501,037.40

#### (XVII) Deferred tax assets and deferred tax liabilities

##### 1. Deferred tax assets before offsetting

Items	Balance as at the end of the period		Balance as at the end of the previous year	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for assets impairment	8,026,079.93	1,687,621.09	8,748,711.46	2,187,177.87
Deductible losses	18,012,806.84	4,503,201.71	131,474,917.04	32,868,729.26
Depreciation of right-of-use asset and amortisation of interest expenses on lease liabilities	4,653,187.96	1,163,296.99	4,104,194.28	1,026,048.57
Share-based payment	46,552,302.33	6,982,845.35	16,594,390.84	4,148,597.71
Advertising expenditure			111,336.92	27,834.23
Total	77,244,377.06	14,336,965.14	160,922,213.62	40,258,387.64

##### 2. Deferred tax liabilities before offsetting

Items	Balance as at the end of the period		Balance as at the end of the previous year	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Appreciation of assets revalued in business combination involving enterprise not under common control	144,340,394.12	36,085,098.53	93,699,161.41	23,424,790.35
Changes in fair value of other equity instrument investments	15,812,274.60	2,371,841.19	6,430,593.28	1,607,648.32
One-off deduction for fixed assets	6,958,909.45	1,418,850.23		
Total	167,111,578.17	39,875,789.95	100,129,754.69	25,032,438.67

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XVIII) Other non-current assets

Items	Balance as at the end of the period			Balance as at the end of the previous year		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Prepayments for equity investments	6,936,000.00		6,936,000.00			
Prepayments for fixed assets and projects	130,386.60		130,386.60	4,708,451.10		4,708,451.10
Time deposits	14,000,000.00		14,000,000.00	14,000,000.00		14,000,000.00
Total	21,066,386.60		21,066,386.60	18,708,451.10		18,708,451.10

Other explanations:

As at 31 December 2021, the prepayment for equity investment of RMB6,936,000.00 is the prepayment of the Company for the acquisition of 10% equity interests of the minority shareholder of our subsidiary Zhejiang Huangfeng Hospital Management Co., Ltd.

#### (XIX) Short-term borrowings

##### 1. Classification of Short-term borrowings

Items	Balance as at the end of the period	Balance as at the end of the previous year
Secured borrowings		

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XXI) Accounts payable

##### 1. List of accounts payable

Items	Balance as at the end of the period	Balance as at the end of the previous year
Payables for goods	68,751,580.55	71,951,813.77
Payables for equipment	410,421.00	4,050.00
Total	69,162,001.55	71,955,863.77

#### (XXII) Advances

Items	Balance as at the end of the period	Balance as at the end of the previous year
Advances from goods and services	16,275,602.70	564,833.66
Rental in advance		4,079,444.44
Total	16,275,602.70	4,644,278.10

#### (XXIII) Contract liabilities

Items	Balance as at the end of the period	Balance as at the end of the previous year
Advances from goods and services	3,240.59	12,965,175.33
Total	3,240.59	12,965,175.33

#### (XXIV) Employee benefits payable

##### 1. List of employee benefits payable

Items	Balance as at the end of the previous year	Increase in the current period	Decrease in the current period	Balance as at the end of the period
Short-term employee benefits	41,593,358.08	418,486,005.32	402,110,075.98	57,969,287.42
Post-employment benefits – defined contribution plans	1,191,775.10	24,783,023.83	23,455,902.08	2,518,896.85
Total	42,785,133.18	443,269,029.15	425,565,978.06	60,488,184.27

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XXIV) Employee benefits payable (Continued)

##### 2. List of short-term employee benefits

Items	Balance as at the end of the previous year	Increase in the current period	Decrease in the current period	Balance as at the end of the period
(1) Wages and salaries, bonus, allowances and subsidies	40,455,202.48	375,566,599.23	359,790,822.10	56,230,979.61
(2) Staff welfare	17,469.98	8,143,541.72	8,073,176.40	87,835.30
(3) Social insurance contributions	1,113,242.08	16,201,413.71	15,980,260.90	1,334,394.89
Including: Medical insurance	1,101,490.29	15,569,353.02	15,380,158.03	1,290,685.28
Work injury insurance	10,420.27	518,944.25	490,522.91	38,841.61
Maternity insurance	1,331.52	75,527.00	71,990.52	4,868.00
Others		37,589.44	37,589.44	
(4) Housing funds	7,443.54	17,768,565.30	17,581,608.78	194,400.06
(5) Labour union funds and employee education funds		684,207.80	684,207.80	
(6) Other short-term employee benefits		121,677.56		121,677.56
Total	41,593,358.08	418,486,005.32	402,110,075.98	57,969,287.42

##### 3. List of defined contribution plans

Items	Balance as at the end of the previous year	Increase in the current period	Decrease in the current period	Balance as at the end of the period
Basic pensions	1,166,755.89	24,016,573.72	22,736,255.26	2,447,074.35
Unemployment insurance premiums	25,019.21	766,450.11	719,646.82	71,822.50
Total	1,191,775.10	24,783,023.83	23,455,902.08	2,518,896.85

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XXV) Taxes payable

Items	Balance as at the end of the period	Balance as at the end of the previous year
Enterprise income tax	22,222,781.68	22,692,620.00
Property tax	4,544,055.56	4,826,592.24
VAT	2,194,179.27	1,990,173.00
Land VAT		18,110,608.46
Individual income tax	1,102,372.67	1,041,474.76
City maintenance and construction tax	39,305.94	127,846.77
Educational surcharge	28,135.83	113,557.12
Stamp tax	16,848.52	26,203.66
Land use tax	250,083.20	117,479.40
Total	30,397,762.67	49,046,555.41

#### (XXVI) Other payables

Items	Balance as at the end of the period	Balance as at the end of the previous year
Interest payable	2,452,347.57	461,449.99
Dividend payable	86,550.00	
Other payables	67,057,011.09	85,345,691.44
Total	69,595,908.66	85,807,141.43

##### 1. Interest payable

Items	Balance as at the end of the period	Balance as at the end of the previous year
Interest on long-term borrowings with interest payments by installment and principal payments at due	591,542.11	461,449.99
Money lending	1,860,805.46	
Total	2,452,347.57	461,449.99

##### 2. Dividend payable

Items	Balance as at the end of the period	Balance as at the end of the previous year
Ordinary share dividends	86,550.00	
Total	86,550.00	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XXIX) Lease liabilities

Items	Balance as at the end of the period	Balance as at the end of the previous year
Lease liabilities	231,733,760.37	194,601,229.70
Total	231,733,760.37	194,601,229.70

#### (XXX) Deferred income

Items	Balance as at the end of the previous year	Increase in the current period	Decrease in the current period	Balance as at the end of the period	Reasons
Government grants	9,645,475.00		303,792.00	9,341,683.00	
Total	9,645,475.00		303,792.00	9,341,683.00	

Projects related to government grants:

Liabilities	Balance as at the end of the previous year	Additions of grants for the current period	Amount included in profit or loss for the current period	Other changes	Balance as at the end of the period	Asset-related/ income-related
Expansion project of the inpatient building	9,645,475.00		303,792.00		9,341,683.00	Asset-related
Total	9,645,475.00		303,792.00		9,341,683.00	

#### (XXXI) Share capital

Items	Balance as at the end of the previous year	Increases (+)/decreases (-) in the current period					Sub-total	Balance as at the end of the period
		Issuance of new shares	Bonus issue	Conversion from reserves	Others			
Total shares	74,600,300.00						74,600,300.00	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XXXII) Capital surplus

Items	Balance as at the end of the previous year	Increase in the current period	Decrease in the current period	Balance as at the end of the period
Share premium	780,975,679.53	2,445,056.34		783,420,735.87
Other capital surplus				
– Share-based payment	16,710,203.00	15,932,752.35		32,642,955.35
– Other capital surplus	21,823,183.01	278,521.36		22,101,704.37
Total	819,509,065.54	18,656,330.05		838,165,395.59

Other explanations:

- (1) In 2021, the share premium increased RMB2,445,056.34 as the Company granted the equity reserved in the Restricted Share Incentive Plan to the relevant incentive objects, and the relevant funds were transferred to the capital reserve.
- (2) For details of share-based payment, please refer to Note IX.
- (3) In 2021, the increase of RMB1,823,962.08 in other capital reserves is due to the deferred income tax arising from the expected changes in the fair value of the Restricted Shares granted in the Restricted Share Incentive Plan.
- (4) In 2021, other capital reserves decreased by RMB3,434.59, which was caused by the changes in other equity of associates. Other changes were due to the Company's disposal of certain investment properties.

#### (XXXIII) Treasury stock

Items	Balance as at the end of the previous year	Increase in the current period	Decrease in the current period	Balance as at the end of the period
Treasury stock	23,311,143.84		23,311,143.84	
Total	23,311,143.84		23,311,143.84	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XXXIII) Treasury stock (Continued)

Other explanations:

In June 2021, the Board of the Company decided to further revise the Equity Incentive Plan, cancel the performance assessment requirements of the Equity Incentive Plan, and cancel the repurchase obligation for unlocked Incentive Shares of the Company.

#### (XXXIV) Surplus reserve

Items	Balance as at the end of the previous year	Balance as at the beginning of the year	Increase in the current period	Decrease in the current period	Balance as at the end of the period
Statutory surplus reserve	36,593,228.71	36,593,228.71	1,806,348.42		38,399,577.13
Total	36,593,228.71	36,593,228.71	1,806,348.42		38,399,577.13

Other explanations:

In accordance with the Company Law of the People's Republic of China, the Company shall appropriate 10% of the net profit for the year to the statutory surplus reserve. The Company can cease appropriation when the statutory surplus reserve reaches more than 50% of the registered capital. The statutory surplus reserve can be used to make up losses or increase the paid-in capital upon approval.

#### (XXXV) Retained earnings

Items	Amount for the current period	Amount for the previous period
Retained earnings before adjustment at the end of previous year	205,665,236.07	153,298,982.22
Adjustment to the retained earnings in total at the beginning of the year (increase +, decrease -)		
Retained earnings after adjustment at the beginning of the year	205,665,236.07	153,298,982.22
Add: Net profit attributable to owners of the parent company of the current period	44,048,873.12	55,770,161.56
Less: Appropriation to statutory surplus reserve	1,806,348.42	3,403,907.71
Appropriation of discretionary surplus reserve		
Appropriation of general risk reserve		
Dividend payable on ordinary shares		
Dividend on ordinary share converted to share capital		
Retained earnings at the end of the period	247,907,760.77	205,665,236.07

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XXXVI) Revenue and cost of sales

##### 1. Analysis of revenue and cost of sales

Items	Amount for the current period		Amount for the previous period	
	Revenue	Cost	Revenue	Cost
Main businesses	1,202,774,377.74	897,111,635.75	935,611,626.10	701,510,603.37
Other businesses	94,655,992.09	71,320,820.01	53,400,377.78	27,662,054.00
Total	1,297,430,369.83	968,432,455.76	989,012,003.88	729,172,657.37

Breakdown of revenue:

Items	Amount for the current period	Amount for the previous period
Revenue from main businesses	1,202,774,377.74	935,611,626.10
Including: Pharmaceutical sales	267,588,282.25	222,586,930.00
Treatments and general healthcare services	935,186,095.49	713,024,696.10
Revenue from other businesses	94,655,992.09	53,400,377.78
Including: Wholesale and retail revenue of pharmaceutical and equipment	51,613,429.22	12,031,746.00
Management service	2,970,297.00	16,761,130.00
Rental income	7,515,329.40	11,384,472.78
Real estate sales	16,043,547.63	3,870,905.00
Others	16,513,388.84	9,352,124.00
Total	1,297,430,369.83	989,012,003.88

##### 2. Description of performance obligation

The performance obligation of treatments and general healthcare services refers to the provision of diagnosis and healthcare services to outpatients, which is usually completed when diagnosis and healthcare services are provided after the patients have paid the fees.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XXXVII) Taxes and surcharges

Items	Amount for the current period	Amount for the previous period
Property tax	4,416,392.57	4,748,966.00
City maintenance and construction tax	280,340.23	150,412.00
Educational surcharge	213,689.46	109,787.00
Land use tax	392,290.44	
Stamp tax	265,035.50	
Others	186,471.08	404,701.23
Total	5,754,219.28	5,413,866.23

#### (XXXVIII) Selling and distribution expenses

Items	Amount for the current period	Amount for the previous period
Employee benefits	5,556,366.17	4,093,648.35
Depreciation expenses	156,569.73	139,939.95
Amortisation of intangible assets	44,100.98	57,108.64
Amortisation of long-term prepaid expenses	257,131.08	24,000.00
Entertainment expenses	520,490.16	358,110.51
Office expenses	356,031.89	352,675.90
Travelling expenses	363,691.02	248,352.90
Utilities	2,444.13	2,822.89
Outsourcing expenses	39,509.00	66,639.46
Promotion expenses	2,893,681.49	2,715,860.94
Repair and maintenance expenses	35,463.43	5,444.50
Others	109,913.57	7,741.05
Total	10,335,392.65	8,072,345.09

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

(XXXIX) General and administrative expenses

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XL) Research and development expenses

Items	Amount for the current period	Amount for the previous period
Employee benefits	24,627,424.22	17,848,451.21
Depreciation expenses	594,882.24	242,189.00
Amortisation of long-term prepaid expenses		23,627.52
Pharmaceutical and medical consumables used	311,882.70	307,591.63
Housing lease expenses		51,147.76
Travelling expenses	76,999.34	65,594.08
Outsourcing expenses	1,346,035.33	797,259.47
Testing fee	134,907.60	80,287.29
Others	870,041.96	1,556,353.65
Total	27,962,173.39	20,972,501.61

#### (XLI) Financial expenses

Items	Amount for the current period	Amount for the previous period
Interest expenses	36,267,756.91	26,813,000.00
Including: Interest expenses on lease liabilities	14,290,203.16	10,903,000.00
Less: Interest income	1,691,366.88	4,677,222.00
Foreign exchange gains and losses	38,704.15	258,603.10
Fees	3,043,331.77	683,021.00
Total	37,658,425.95	23,077,402.10

#### (XLII) Other income

Items	Amount for the current period	Amount for the previous period
Government grants	13,486,446.80	8,563,355.80
Fees for withholding individual income tax	133,188.26	693,430.74
Social insurance return		8,038.11
Total	13,619,635.06	9,264,824.65

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XLII) Other income (Continued)

##### Government grants included in other income

Items	Amount for the current period	Amount for the previous period	Asset-related/ income-related
Subsidies for technology enterprises	3,325,154.99	243,961.77	Income-related
Subsidies for resident doctors standardized training	2,270,000.00	2,970,000.00	Income-related
Subsidies from Health Bureau of Pingyang County	1,904,299.94		Income-related
Tax and social insurance return	1,231,900.37	1,666,971.46	Income-related
Vaccines and nucleic acid subsidies related to COVID-19	814,795.52	228,780.00	Income-related
Basic service subsidies from Shenzhen Health Commission	744,608.99	808,632.00	Income-related
Municipal subsidies for medical institutions with social capital	478,000.00		Income-related
Subsidies for healthcare alliances construction project in Cangnan County from Cangnan Peoples Hospital	414,380.00		Income-related
Reconstruction and expansion project subsidized by Wenzhou Finance Bureau	303,792.00	303,792.00	Asset-related
Bed subsidies from Health and Family Planning Bureau	284,000.00	284,000.00	Income-related
Employment stabilization subsidies from Human Resources and Social Security Bureau	244,079.31	192,757.71	Income-related
Medium-term construction funding for key laboratories	216,800.00	325,200.00	Asset-related
Assessment incentive from Health Bureau of Yuhang District, Hangzhou	175,000.00		Income-related
Talent cultivation subsidies	168,696.99	161,000.00	Income-related
Subsidies for medical institutions with social capital from Health Bureau of Yueqing City	137,120.00		Income-related
Subsidies for key public health service from Cangnan Finance Bureau	125,000.00		Income-related
Comprehensive evaluation incentive from Health Bureau of Linping District	120,000.00		Income-related
Accommodation subsidies for employees	74,237.34	2,000.00	Income-related
Subsidies from Health Commission of Haidian District	70,800.00		Income-related
Employment subsidies for employees	65,149.25	57,000.00	Income-related
Incentive for enterprises above designated size in the service sector from Development and Reform Bureau of Pingyang County	50,000.00	50,000.00	Income-related
Subsidies for designated rehabilitation institutions for disabled children	50,000.00		Income-related
Subsidies from Cangnan Disabled Persons Federation	50,000.00		Income-related
Incentive and subsidies for the service sector under preferential policies of "fast service" for enterprises	50,000.00		Income-related
Subsidies for Disabled Persons Home	40,000.00	117,300.00	Income-related
Work-for-training subsidies from employment service office	31,000.00	225,116.00	Income-related
Incentive for enterprises above designated size in 2020	30,000.00		Income-related

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XLII) Other income (Continued)

##### Government grants included in other income (Continued)

Items	Amount for the current period	Amount for the previous period	Asset-related/ income-related
Subsidies for public health service from Health Bureau of Yueqing City	13,500.00		Income-related
Emergency Relief Fund from Health Commission of Huainan City	4,132.10		Income-related
Financial subsidies for private medical institutions from Financial Bureau of Qingtian County		1,100,000.00	Income-related
Medical expenses settlement of Hangzhou medical insurance in 2019		370,844.86	Income-related
Conference grants for Kangning International Forum		180,000.00	Income-related
Assessment subsidies from Health Bureau of Yuhang District, Hangzhou City in 2020		120,000.00	Income-related
Assessment subsidies for private medical institutions from Health Bureau of Yuhang District, Hangzhou City		70,000.00	Income-related
Subsidies for Foreign Intelligence Project -Family Therapist Training Project		50,000.00	Income-related
Subsidies for review and diagnosis of patients with severe mental disorders in Cangnan County from Finance Bureau of Cangnan County		30,000.00	Income-related
Subsidies for construction of intelligent supervision platform for medical waste from Cangnan Finance Bureau		6,000.00	Income-related
Refund of subsidies for health talent training from Finance Bureau of Wenzhou City in 2019		-1,000,000.00	Income-related
Total	13,486,446.80	8,563,355.80	

#### (XLIII) Investment income

Items	Amount for the current period	Amount for the previous period
Income from long-term equity investments under the equity method	-6,565,719.92	-7,148,143.69
Investment income from disposal of long-term equity investments	7,087,253.75	83,207.78
Investment income from financial assets held for trading during the holding period	6,429,189.35	
Investment income from disposal of financial assets held for trading		96,369.86
Total	6,950,723.18	-6,968,566.05

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XLIV) Gains from changes in fair value

	Amount for the current period	Amount for the previous period
Source of gains from changes in fair value		
Financial assets held for trading	8,407,356.31	6,123,049.27
Investment properties measured at fair value	1,010,034.42	476,174.00
Total	9,417,390.73	6,599,223.27

#### (XLV) Credit impairment losses

	Amount for the current period	Amount for the previous period
Items		
Losses on bad debts of accounts receivable	3,005,695.74	697,691.45
Losses on bad debts of other receivables	-865,499.29	-214,199.53
Total	2,140,196.45	483,491.92

#### (XLVI) Assets impairment losses

	Amount for the current period	Amount for the previous period
Items		
Goodwill impairment losses	6,179,290.37	8,011,602.04
Total	6,179,290.37	8,011,602.04

#### (XLVII) Gains from disposal of assets

	Amount for the current period	Amount for the previous period	Amount included in non-recurring profit or loss for the current period
Items			
Gains from disposal of non-current assets (losses represented with "-" signs)	-101,512.90		-101,512.90
Including: Gains from disposal of fixed assets (losses represented with "-" signs)	-101,512.90		-101,512.90
Others	22,109.35	596,698.59	22,109.35
Total	-79,403.55	596,698.59	-180,916.45

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XLVIII) Non-operating income

Items	Amount for the current period	Amount for the previous period	Amount included in non-recurring profit or loss for the current period
Gains from damaging and scrapping of non-current assets	154,603.42	49,140.83	154,603.42
Including: Fixed assets	154,603.42	49,140.83	154,603.42
Donations received	9,470,530.18	2,183,366.72	9,470,530.18
Government grants not relating to daily activities of enterprises	265,600.00	59,274.50	265,600.00
Demolition and reallocation compensation income	1,800,000.00		1,800,000.00
Others	145,198.20	1,504,994.88	145,198.20
Total	11,835,931.80	3,796,776.93	11,835,931.80

#### Government grants included in non-operating income

Items	Amount for the current period	Amount for the previous period	Asset-related/ income-related
Interest subsidies for loans to micro, small and medium-sized enterprises from Economic and Information Bureau of Lucheng District, Wenzhou City		42,187.00	Income-related
Subsidies for Wenzhou-based private enterprises to stay in Wenzhou in 2021	100,000.00		Income-related
Preliminary expenses for Disabled Persons' Home	150,000.00		Income-related
Incentive grants from Pingyang Health Bureau	15,600.00		Income-related
Party Building Funds in 2020		900.00	Income-related
"Two Directs" subsidies for micro and small-sized enterprises		10,000.00	Income-related
Interest subsidies for loans to micro, small and medium-sized enterprises from Economic and Information Bureau		6,187.50	Income-related
Total	265,600.00	59,274.50	/

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (XLIX) Non-operating expenses

Items	Amount for the current period	Amount for the previous period	Amount included in non-recurring profit or loss for the current period
Losses on damaging and scrapping of non-current assets	165,976.73	419,427.14	165,976.73
Including: Fixed assets	165,976.73	419,427.14	165,976.73
Expenses of donation to charities	3,333,396.94	2,037,162.39	3,333,396.94
Liquidated damages expenses	3,398,511.21	1,519,000.00	3,398,511.21
Others	1,738,698.54	426,355.66	1,738,698.54
Total	8,636,583.42	4,401,945.19	8,636,583.42

#### (L) Income tax expenses

##### 1. Table of income tax expenses

Items	Amount for the current period	Amount for the previous period
Current income tax expenses	26,919,820.08	30,415,239.59
Deferred income tax expenses	27,911,092.92	246,955.59
Total	54,830,913.00	30,662,195.18

##### 2. Reconciliation between total profit and income tax expenses

Items	Amount for the current period
Total profit	95,704,020.96
Income tax expenses calculated at the statutory or applicable tax rates	21,762,976.12
Impact of different tax rates applicable to subsidiaries	1,508,267.25
Adjustment to impact of income tax of past periods	-2,591,473.88
Impact of non-taxable income	-283,549.75
Impact of non-deductible costs, expenses and losses	4,012,268.00
Impact of deductible losses of the deferred income tax assets unrecognized in the previous period	-3,047,921.90
Impact of deductible temporary differences or deductible losses for which deferred income tax assets are not recognized in the current period	40,749,554.74
Impact of additional deduction of research and development expenses	-3,263,745.97
Impact of business combination involving enterprise not under common control	-4,286,811.52
Others	271,349.91
Income tax expenses	54,830,913.00

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (LI) Earnings per share

##### 1. Basic earnings per share

Basic earnings per share is calculated by the consolidated net profit attributable to the ordinary shareholders of the parent company divided by the weighted average number of outstanding ordinary shares of the Company:

Items	Amount for the current period	Amount for the previous period
Consolidated net profit attributable to the ordinary shareholders of the parent company	44,048,873.12	55,770,161.56
Weighted average number of outstanding ordinary shares of the Company	72,140,300.00	72,452,438.00
Basic earnings per share	0.61	0.77
Including: Basic earnings per share from continuing operations	0.61	0.77
Basic earnings per share from discontinued operations		

##### 2. Diluted earnings per share

Diluted earnings per share is calculated by the consolidated net profit attributable to the ordinary shareholders of the parent company (diluted) divided by the weighted average number of outstanding ordinary shares of the Company(diluted):

Items	Amount for the current period	Amount for the previous period
Consolidated net profit attributable to the ordinary shareholders of the parent company (diluted)	44,048,873.12	55,770,161.56
Weighted average number of outstanding ordinary shares of the Company(diluted)	74,600,300.00	73,927,066.00
Diluted earnings per share	0.59	0.75
Including: Diluted earnings per share from continuing operations	0.59	0.75
Diluted earnings per share from discontinued operations		

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (LII) Supplementary information to the income statement of expenses by nature

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

Items	Amount for the current period	Amount for the previous period
Employee benefits expenses	435,967,572.12	339,081,062.00
Pharmaceutical and medical consumables used	353,105,992.03	260,283,959.00
Costs of real estate sold	15,204,373.00	3,339,117.00
Depreciation of fixed assets	45,173,131.23	41,037,075.00
Depreciation of right-of-use assets	45,435,380.70	33,045,367.94
Amortisation of intangible assets	15,010,629.62	14,101,748.00
Amortisation of long-term prepaid expenses	38,371,918.45	35,549,405.00
Housing lease and property management expenses	15,472,884.97	4,382,432.00
Canteen expenditure	57,050,465.71	44,513,962.00
Utilities	24,096,157.46	19,138,805.00
Outsourcing expenses	21,047,712.17	14,146,526.00
Testing fee	25,603,836.37	26,463,398.95
Consulting service fees	13,820,361.56	8,036,573.57
Auditors' remuneration	1,222,900.00	824,500.00
Promotion expenses	2,990,339.08	2,914,695.00
Travelling expenses	4,416,545.06	4,170,744.00
Office expenses	9,312,807.52	5,256,718.00
Share-based payment	15,932,752.35	5,947,766.76
Others	43,866,151.22	24,360,544.05
Total	1,183,101,910.62	886,594,399.27

#### (LIII) Items in the cash flow statement

##### 1. Cash received relating to other operating activities

Items	Amount for the current period
-------	----------------------------------

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (LIII) Items in the cash flow statement (Continued)

##### 2. Cash paid relating to other operating activities

Items	Amount for the current period	Amount for the previous period
Inter-enterprise transactions	23,313,110.97	109,476,483.03
Cost expenditure	54,235,967.08	7,708,280.81
Donation expenses	6,714,560.33	2,058,090.44
Non-operating expenses	4,469,403.02	979,247.30
Financial expenses – others	1,442,594.04	137,638.42
Total	90,175,635.44	120,359,740.00

##### 3. Cash received relating to other investing activities

Items	Amount for the current period	Amount for the previous period
Funds recovered from inter-enterprise loans		14,520,000.00
Total		14,520,000.00

##### 4. Cash paid relating to other investing activities

Items	Amount for the current period	Amount for the previous period
Funds lent from inter-enterprise loans		6,470,000.00
Total		6,470,000.00

##### 5. Cash paid relating to other financing activities

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (LIV) Supplementary information to the cash flow statement

##### 1. Supplementary information to the cash flow statement

Supplementary information	Amount for the current period	Amount for the previous period
1. Reconciliation from net profit to cash flows from operating activities		
Net profit	44,048,873.12	55,770,161.56
Add: Gains of non-controlling shareholders for the current period	-3,175,765.16	-12,114,102.22
Credit impairment losses	2,140,196.45	23,125,756.00
Provision for assets impairment	6,179,290.37	8,011,603.00
Depreciation of fixed assets	90,054,440.87	74,153,594.00
Consumption of oil and gas assets		
Depreciation of right-of-use assets		
Amortisation of intangible assets	14,530,192.10	14,101,748.00
Amortisation of long-term prepaid expenses	38,836,785.71	35,549,405.00
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains represented with" signs)	79,403.55	-692,250.00
Losses on scrapping of fixed assets (gains represented with" signs)	11,373.31	
Losses on changes in fair value (gains represented with" signs)	-9,417,390.73	-6,599,223.00
Financial expenses (gains represented with" signs)	36,306,461.06	26,805,140.00
Investment losses (gains represented with" signs)	-6,950,723.18	7,665,311.00
Decrease in deferred tax assets (increase represented with" signs)	27,745,384.58	305,286.00
Increase in deferred tax liabilities (decrease represented with" signs)	14,843,351.28	-2,841,679.00
Decrease in inventories (increase represented with" signs)	-19,010,829.84	-12,896,656.00
Decrease in operating receivables (increase represented with" signs)	-37,743,452.80	-19,356,716.00
Increase in operating payables (decrease represented with" signs)	-4,581,092.21	3,084,802.66
Others		5,583,811.00
Net cash flows from operating activities	193,896,498.48	199,655,992.00
2. Significant non-cash transactions in relation to investing and financing activities		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Fixed assets held under finance leases		
3. Net movement in cash and cash equivalents		
Cash at the end of the period	188,734,845.77	200,092,665.42
Less: Cash at the beginning of the period	200,092,665.42	164,951,950.00
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	-11,357,819.65	35,140,715.42

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (LIV) Supplementary information to the cash flow statement (Continued)

##### 2. Composition of cash and cash equivalents

Items	Balance as at the end of the period	Balance as at the end of the previous year
I. Cash	188,734,845.77	200,092,665.42
Including: Cash on hand	971,773.72	374,287.07
Cash at bank that can be readily drawn on demand	187,484,938.31	199,718,378.35
Other cash balances that can be readily drawn on demand	278,133.74	
Deposits with central bank that can be readily drawn on demand		
Deposits with other banks		
Loans from other banks		
II. Cash equivalents		
Including: Bond investments due within three months		
III. Cash and cash equivalents at the end of the period	188,734,845.77	200,092,665.42

#### (LV) Assets with restricted ownership or right-of-use

Items	Carrying amount as at the end of the period	Reasons for restriction
Fixed assets	36,688,017.03	Charges on fixed assets
Total	36,688,017.03	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (LVI) Government grants

##### 1. Government grants related to assets

Type	Amount	Balance sheet items	Amount included in the current profit or loss or offsetting the loss of related costs and expenses		Items included in the current profit or loss or offsetting the loss of related costs and expenses
			Amount for the period	Amount for the previous period	
Reconstruction and expansion project subsidized by Wenzhou Finance Bureau	303,792.00	Deferred income	303,792.00	303,792.00	Other income
Medium-term construction funding for key laboratories	216,800.00	Other income	216,800.00	325,200.00	Other income

##### 2. Government grants related to income

Type	Amount	Amount included in the current profit or loss or offsetting the loss of related costs and expenses		Items included in the current profit or loss or offsetting the loss of related costs and expenses
		Amount for the period	Amount for the previous period	
Subsidies for technology enterprises	3,325,154.99	3,325,154.99	243,961.77	Other income
Subsidies for resident doctors standardized training	2,270,000.00	2,270,000.00	2,970,000.00	Other income
Subsidies from Health Bureau of Pingyang County	1,904,299.94	1,904,299.94		Other income
Tax and social insurance return	1,231,900.37	1,231,900.37	1,556,611.41	Other income
Vaccines and nucleic acid subsidies related to COVID-19	814,795.52	814,795.52	228,780.00	Other income
Basic service subsidies from Shenzhen Health Commission	744,608.99	744,608.99	808,632.00	Other income
Municipal subsidies for medical institutions with social capital	478,000.00	478,000.00		Other income
Subsidies for healthcare alliances construction project in Cangnan County from Cangnan Peoples Hospital	414,380.00	414,380.00		Other income
Bed subsidies from Health and Family Planning Bureau	284,000.00	284,000.00	284,000.00	Other income
Employment stabilization subsidies from Human Resources and Social Security Bureau	244,079.31	244,079.31	302,937.49	Other income
Assessment incentive from Health Bureau of Yuhang District, Hangzhou	175,000.00	175,000.00		Other income
Talent cultivation subsidies	168,696.99	168,696.99	161,000.00	Other income
Subsidies for medical institutions with social capital from Health Bureau of Yueqing City	137,120.00	137,120.00		Other income
Subsidies for key public health service from Cangnan Finance Bureau	125,000.00	125,000.00		Other income
Comprehensive evaluation incentive from Health Bureau of Linping District	120,000.00	120,000.00		Other income
Accommodation subsidies for employees	74,237.34	74,237.34	2,000.00	Other income
Subsidies from Health Commission of Haidian District	70,800.00	70,800.00		Other income
Employment subsidies for employees	65,149.25	65,149.25	57,000.00	Other income
Incentive for enterprises above designated size in the service sector from Development and Reform Bureau of Pingyang County	50,000.00	50,000.00	50,000.00	Other income
Subsidies for designated rehabilitation institutions for disabled children	50,000.00	50,000.00		Other income
Subsidies from Cangnan Disabled Persons Federation	50,000.00	50,000.00		Other income
Incentive and subsidies for the service sector under preferential policies of fast service for enterprises	50,000.00	50,000.00		Other income

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### V. Notes to the consolidated financial statements (Continued)

#### (LVI) Government grants(Continued)

##### 2. Government grants related to income (Continued)

Type	Amount	Amount included in the current profit or loss or offsetting the loss of related costs and expenses		Items included in the current profit or loss or offsetting the loss of related costs and expenses
		Amount for the period	Amount for the previous period	
Subsidies for Disabled Persons Home	40,000.00	40,000.00	117,300.00	Other income
Work-for-training subsidies from employment service office	31,000.00	31,000.00	225,116.00	Other income
Incentive for enterprises above designated size in 2020	30,000.00	30,000.00		Other income
Subsidies for public health service from Health Bureau of Yueqing City	13,500.00	13,500.00		Other income
Emergency Relief Fund from Health Commission of Huainan City	4,132.10	4,132.10		Other income
Financial subsidies for private medical institutions from Financial Bureau of Qingtian County			1,100,000.00	Other income
Medical expenses settlement of Hangzhou medical insurance in 2019			370,844.86	Other income
Conference grants for Kangning International Forum			180,000.00	Other income
Assessment subsidies from Health Bureau of Yuhang District, Hangzhou City in 2020			120,000.00	Other income
Assessment subsidies for private medical institutions from Health Bureau of Yuhang District, Hangzhou City			70,000.00	Other income
Subsidies for Foreign Intelligence Project -Family Therapist Training Project			50,000.00	Other income
Subsidies for review and diagnosis of patients with severe mental disorders in Cangnan County from Finance Bureau of Cangnan County			30,000.00	Other income
Subsidies for construction of intelligent supervision platform for medical waste from Cangnan Finance Bureau			6,000.00	Other income
Interest subsidies for loans to micro, small and medium-sized enterprises from Economic and Information Bureau of Lucheng District, Wenzhou City			42,187.00	Non-operating income
Subsidies for Wenzhou-based private enterprises to stay in Wenzhou in 2021	100,000.00	100,000.00		Non-operating income
Preliminary expenses for Disabled Persons Home	150,000.00	150,000.00		Non-operating income
Incentive grants from Pingyang Health Bureau	15,600.00	15,600.00		Non-operating income
Party Building Funds in 2020			900.00	Non-operating income
"Two Directs" subsidies for micro and small-sized enterprises			10,000.00	Non-operating income
Interest subsidies for loans to micro, small and medium-sized enterprises from Economic and Information Bureau			6,187.50	Non-operating income

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VI. Changes in scope of consolidation

#### (I) Business combination not under common control

##### 1. Business combination not under common control during the period

Name of acquiree	Time of acquisition of equity interest	Consideration of acquisition of equity interest	Percentage of equity interest acquired (%)	Method of acquisition of equity interest	Date of acquisition	Basis for determining the date of acquisition	Income of the acquiree from the date of acquisition to the end of the period	Net profit of the acquiree from the date of acquisition to the end of the period
Pingyang Kangning Hospital Co., Ltd.	1 September 2021	154,744,700.00	100.00	Acquisition with cash	1 September 2021	Control	29,036,060.16	-3,169,319.46

##### 2. Cost of combination and goodwill

Items	Pingyang Kangning Hospital Co., Ltd.
Cost of combination	
– Cash	154,744,700.00
– Fair value of non-cash assets	
– Fair value of the issued or assumed debts	
– Fair value of the issued equity securities	
– Fair value of contingent consideration	
– Fair value on the date of acquisition for equity interest held prior to the date of acquisition	
– Others	
Total cost of combination	154,744,700.00
Less: fair value of identifiable net assets acquired	102,974,505.33
Goodwill	51,770,194.67

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VI. Changes in scope of consolidation (Continued)

#### (I) Business combination not under common control (Continued)

##### 2. *Cost of combination and goodwill (Continued)*

Explanation on determination of fair value of cost of combination:

The Company determined the fair value of the transferred non-cash assets and liabilities by using valuation techniques.

Major reason for a huge amount of goodwill:

- (1) Prior to this business takeover transaction, Zhejiang Huangfeng Hospital Management Co., Ltd. (hereinafter referred to “Zhejiang Huangfeng”), a subsidiary of the Company entered into a hospital entrusted operation and management service agreement with Pujiang Yining Huangfeng Hospital (hereinafter referred to “Pujiang Yining”), pursuant to which Zhejiang Huangfeng shall provide hospital management consulting services to Pujiang Yining. In January 2021, Zhejiang Huangfeng and Pujiang Yining terminated the service agreement and entered into a waiver agreement, agreeing to waive the interest of the outstanding management service fee payable by Pujiang Yining. At the same time, pursuant to the asset transfer and credit and debt offset agreement entered into between Pujiang Yining Huang Feng and Pujiang Yining, it was agreed that Pujiang Yining Huang Feng would purchase the remaining assets of Pujiang Yining at a cash consideration of RMB5,488.53, as a result of which, the Company put together the consideration for the acquisition of Pujiang Yining business by giving up the service agreement, exempting management service fee interest and cash consideration. According to the relevant appraisal and consulting conclusion of Avista Business Consulting (Shanghai) Co., Ltd. on the above transaction consideration, the fair value of the cash consideration and the waived operation right of Pujiang Yining, the interest of exempted management service fee and the related assets and liabilities amounted to RMB9,683,465.29, resulting in the formation of goodwill of RMB9,677,976.76.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VI. Changes in scope of consolidation (Continued)

#### (I) Business combination not under common control (Continued)

##### 2. Cost of combination and goodwill (Continued)

- (2) In January 2021, the Company waived the debts of Hangzhou Yuhang Foster Care center of RMB3,072,643.00, and acquired all the fixed assets of Hangzhou Yuhang Foster Care center through Hangzhou Yining Foster Care Service Co., Ltd., its subsidiary, at a consideration of RMB271,851.00, so as to achieve relevant business acquisition. According to the relevant appraisal and consulting conclusion of Avista Business Consulting (Shanghai) Co., Ltd. on the above transaction consideration, the fair value of the identifiable assets of Hangzhou Yuhang Foster Care center was RMB2,071,851.00, correspondingly resulting in the formation of goodwill of RMB1,272,643.00.
- (3) In August 2021, the Company entered into an investment agreement with 6 natural persons including WANG Changxin, Pingyang Binda Investment Management Partnership (LLP) ( 王 昌 新 合 伙 有 限 公 司 ), Liming Yeya Co., Ltd. ( 林 明 耶 耶 有 限 公 司 ) and Wenzhou Jiufu Investment Co., Ltd. ( 温 州 九 夫 有 限 公 司 ), the latter three being the former shareholders of Pingyang Changgeng Yining Hospital Co., Ltd. (hereinafter referred to as "Pingyang Changgeng Hospital"), agreeing to purchase 100% equity of Pingyang Changgeng Hospital held by it at a total consideration of RMB154,744,700.00, of which the consideration for the capital increase amounted to RMB71,234,900.00, and the equity transaction consideration amounted to RMB83,509,800.00. According to the conclusion of Yinxin Appraisal Co., Ltd. on the valuation report of Pingyang Changgeng Hospitals combined consideration, the fair value of Pingyang Changgeng Hospital's identifiable net assets was RMB102,974,505.33, resulting in the formation of goodwill of RMB51,770,194.67.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VI. Changes in scope of consolidation (Continued)

#### (I) Business combination not under common control (Continued)

##### 3. Identifiable assets and liabilities of the acquiree on the date of acquisition

Items	Pingyang Changgeng Yining Hospital Co., Ltd.	
	Fair value on the date of acquisition	Carrying value on the date of acquisition
Assets:		
Cash and bank balances	21,945,767.10	21,945,767.10
Receivables	47,223,487.57	47,223,487.57
Prepayments	67,449.08	67,449.08
Inventories	3,152,887.77	3,152,887.77
Fixed assets	33,114,879.38	64,329,719.80
Construction in progress	25,595.00	25,595.00
Intangible assets	4,331,654.07	58,972,573.58
Liabilities:		
Borrowings		
Payables	67,871,477.16	67,871,477.16
Employee benefits payable	2,757,142.88	2,757,142.88
Taxes payable	151,372.06	151,372.06
Advance receipt	499,042.49	499,042.49
Deferred income tax liabilities		21,463,939.98
Net assets	38,582,685.38	102,974,505.33
Less: minority interests		
Net assets acquired	38,582,685.38	102,974,505.33

Determination of the fair value of identifiable assets and liabilities:

The Company determined the fair value of identifiable assets and liabilities by using valuation techniques.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VI. Changes in scope of consolidation (Continued)

#### (II) Disposal of subsidiaries

##### 1. Loss of control arising from a single disposal of investments in subsidiaries

Name of subsidiary	Consideration for disposal of equity interest	Percentage of disposal of equity interest (%)	Method of disposal of equity interest	Date of loss of control	Basis for determining the date of loss of control	Percentage of remaining equity interest on the date of loss of control (%)	Carrying amount of remaining equity interest on the date of loss of control	Fair value of remaining equity interest on the date of loss of control	Gain or loss on fair value remeasurement of remaining equity interests	Determination method and major assumptions of the fair value of remaining equity interest on the date of loss of control	Amount transferred into investment gain or loss from other comprehensive income relating to the equity investment in the former subsidiary
Wenzhou Guoda Investment Co., Ltd.	55,000,000.00	75.00	Disposal of equity interest	25 June 2021	Completion of closing	-	-	-	-	-	-
						10,692,660.43					

#### Other explanations:

On 24 June 2021, Zhejiang Kangning Hospital Management (Group) Co., Ltd. (hereinafter referred to as "Zhejiang Kangning"), a subsidiary of the Company, and the actual controller Guan Weili signed an equity transfer agreement, stipulating that Zhejiang Kangning transfers its 75% equity of Wenzhou Guoda Investment to Guan Weili at a consideration of RMB55,000,000, among which, 30% of the equity transfer payment of RMB16,500,000 had been paid before 30 June 2021, and the remaining 70% had been recovered in September 2021. Wenzhou Guoda Investment completed the change of industrial and commercial registration and the delivery of shareholder rights on 25 June 2021.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VI. Changes in scope of consolidation (Continued)

#### (III) Changes in the scope of consolidation due to other reasons

1. Zhejiang Kangning Hospital Management (Group) Co., Ltd. (“Zhejiang Kangning”) (a subsidiary of the Company) set up a wholly-owned subsidiary Hangzhou Yining Foster Care on 14 December 2020 and entered into a business transfer agreement with Hangzhou Yuhang Foster Care on 5 January 2021. For details, please refer to Note VI (1).
2. Zhejiang Kangning (a subsidiary of the Company) set up a wholly-owned subsidiary Linhai Cining Hospital Co., Ltd. on 25 February 2021, with a registered capital of RMB50 million.
3. The Company set up Wenzhou Ouhai Yining Rehabilitation Hospital Co., Ltd. jointly with Wenzhou Green City Yiju Healthcare Service Co., Ltd. on 8 March 2021, with a registered capital of RMB10 million. The Company contributed RMB6.5 million, holding 65% of the shares of Wenzhou Ouhai Yining Rehabilitation Hospital Co., Ltd..
4. Cangnan Kangning Hospital Co., Ltd. (a subsidiary of the Company) set up a wholly-owned subsidiary Cangnan Yining Nursing Centre Co., Ltd. on 9 March 2021, with a registered capital of RMB10 million.
5. Zhejiang Kangning (a subsidiary of the Company) set up a wholly-owned subsidiary Hangzhou Yining Medical Equipment R&D Co., Ltd. on 1 April 2021, with a registered capital of RMB5 million.
6. Zhejiang Kangning (a subsidiary of the Company) set up a wholly-owned subsidiary Chuñan Qiandao Lake Kangning Hospital Co., Ltd. on 18 May 2021, with a registered capital of RMB10 million.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VII. Interests in other entities

#### (I) Interests in subsidiaries

##### 1. Structure of the Group

Name of subsidiary	Type of legal entity	Major business location	Place of registration	Nature of business	Shareholding (%)		Method of acquisition
					Direct	Indirect	
Zhejiang Kangning Hospital Management (Group) Co., Ltd.	limited liability company (LLC)	Ningbo	Ningbo	Hospital management	100.00		Incorporation
Pingyang Kangning Hospital Co., Ltd.	LLC	Pingyang County	Pingyang County	Medical service		100.00	Incorporation
Wenzhou Yining Geriatric Hospital Co., Ltd.	LLC	Wenzhou	Wenzhou	Medical service		100.00	Incorporation
Quzhou Yining Hospital Co., Ltd.	LLC	Quzhou	Quzhou	Medical service		60.00	Incorporation
Taizhou Luqiao Cining Hospital Co., Ltd.	LLC	Taizhou	Taizhou	Medical service		51.00	Incorporation
Yiwu Kangning Hospital Management Co., Ltd.	LLC	Yiwu	Yiwu	Hospital management		100.00	Incorporation
Hangzhou Yining Hospital Co., Ltd.	LLC	Hangzhou	Hangzhou	Medical service		60.00	Incorporation
Taizhou Kangning Hospital Co., Ltd.	LLC	Taizhou	Taizhou	Medical service		51.00	Business combination not under common control
Hangzhou Cining Hospital Co., Ltd.	LLC	Hangzhou	Hangzhou	Medical service		100.00	Incorporation
Wenzhou Tianzhentang Chinese Medicine Clinic Co., Ltd.	one-person LLC	Wenzhou	Wenzhou	Medical service		100.00	Incorporation
Zhejiang Jerinte Health Technology Co., Ltd.	LLC	Hangzhou	Hangzhou	Technology service		100.00	Incorporation
Wenzhou Jerinte Jingxin Technology Co., Ltd. ( ]ÈëehĐÁ!b"®! )	LLC	Wenzhou	Wenzhou	Technology service		50.00	Incorporation
Nanjing Yining Hospital Co., Ltd.	LLC	Nanjing	Nanjing	Medical service		85.65	Business combination not under common control
Heze Yining Psychiatric Hospital Co., Ltd.	LLC	Heze	Heze	Medical service		51.00	Business combination not under common control
Guanxian Yining Hospital Co., Ltd.	other LLC	Guanxian	Guanxian	Medical service		90.00	Business combination not under common control
Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd.	other LLC	Taizhou	Taizhou	Medical service		51.00	Business combination not under common control
Beijing Yining Hospital Co., Ltd.	LLC	Beijing	Beijing	Medical service		51.00	Incorporation
Wenzhou Yixin Health Technology Co., Ltd.	LLC	Wenzhou	Wenzhou	Technology service		100.00	Business combination not under common control
Huainan Kangning Hospital Co., Ltd.	LLC	Huainan	Huainan	Medical service		95.00	Business combination not under common control
Zhejiang Yining Health Technology Co., Ltd.	LLC	Hangzhou	Hangzhou	Technology service		98.00	Incorporation
Wenzhou Yining Drugstore Co., Ltd.	LLC	Wenzhou	Wenzhou	Drug retail		100.00	Incorporation
Yining Mental Health E-Hospital (Wenzhou) Co., Ltd.	LLC	Wenzhou	Wenzhou	Internet hospital		100.00	Incorporation

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VII. Interests in other entities (Continued)

#### (I) Interest in subsidiaries (Continued)

##### 1. Structure of the Group (Continued)

Name of subsidiary	Type of legal entity	Major business location	Place of registration	Nature of business	Shareholding (%)		Method of acquisition
					Direct	Indirect	
Zhejiang Dening Pharmaceutical Co., Ltd.	other LLC	Wenzhou	Wenzhou	Pharmaceutical retail		80.00	Incorporation
Changchun Kanglin Psychological Hospital Co., Ltd.	other LLC	Changchun	Changchun	Medical service		64.55	Business combination not under common control
Chun'an Qiandao Lake Kangning Hospital Co., Ltd.	LLC	Hangzhou	Hangzhou	Medical service		100.00	Incorporation
Hangzhou Yining Medical Equipment R&D Co., Ltd.	LLC	Hangzhou	Hangzhou	Technology service		100.00	Incorporation
Hangzhou Yining Nursery Service Co., Ltd.	LLC	Hangzhou	Hangzhou	Nursing care		100.00	Incorporation
Linhai Cining Hospital Co., Ltd.	LLC	Taizhou	Taizhou	Medical service		100.00	Incorporation
Shenzhen Yining Hospital	LLC	Shenzhen	Shenzhen	Medical service		55.00	Incorporation
Zhejiang Huangfeng Hospital Management Co., Ltd.	LLC	Hangzhou	Hangzhou	Hospital management	66.00		Business combination not under common control
Pujiang Yining Huangfeng Hospital Co., Ltd. (  )	LLC	Pujiang County	Pujiang County	Medical service		100.00	Incorporation
Chun'an Kangning Huangfeng Hospital Co., Ltd.	LLC	Hangzhou	Hangzhou	Medical service		100.00	Incorporation
Cangnan Kangning Hospital Co., Ltd.	LLC	Cangnan County	Cangnan County	Medical service	100.00		Incorporation
Cangnan Yining Nursing Center Co., Ltd.	LLC	Cangnan County	Cangnan County	Medical service		100.00	Incorporation
Yueqing Kangning Hospital Co., Ltd.	LLC	Yueqing	Yueqing	Medical service	100.00		Incorporation
Linhai Kangning Hospital Co., Ltd.	LLC	Taizhou	Taizhou	Medical service	80.00		Incorporation
Ouhai Yining Elderly Hospital Co., Ltd.	LLC	Wenzhou	Wenzhou	Medical service	100.00		Incorporation
Qingtian Kangning Hospital Co., Ltd.	LLC	Lishui	Lishui	Medical service	100.00		Incorporation
Shenzhen Yining Medical Investment Co., Ltd.	LLC	Shenzhen	Shenzhen	Medical investment	100.00		Incorporation
Wenzhou Cining Hospital Co., Ltd.	LLC	Wenzhou	Wenzhou	Medical service	100.00		Business combination not under common control
Wenzhou Kangning Judicial Forensic Centre	LLC	Wenzhou	Wenzhou	Forensic authentication	100.00		Incorporation
Wenzhou Lucheng Yining Hospital Co., Ltd.	LLC	Wenzhou	Wenzhou	Medical service	60.00		Incorporation
Yongjia Kangning Hospital Co., Ltd.	LLC	Wenzhou	Wenzhou	Medical service	100.00		Incorporation
Pingyang Changgeng Yining Hospital Co., Ltd.	LLC	Wenzhou	Wenzhou	Medical service	100.00		Business combination not under common control

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VII. Interests in other entities (Continued)

#### (I) Interest in subsidiaries (Continued)

##### 2. Significant non-wholly-owned subsidiaries

Name of subsidiary	Shareholding percentage of non-controlling shareholder (%)	Current profits	Current dividends distributed to non-controlling shareholders	Closing balance of interest of non-controlling shareholders
		or losses attributable to non-controlling shareholders		
Wenzhou Lucheng Yining Hospital Co., Ltd.	40.00	-1,123,414.55		18,770,394.61
Zhejiang Huangfeng Hospital Management Co., Ltd.	34.00	1,276,576.53	1,980,000.00	10,682,229.32
Heze Yining Hospital Psychiatric Co., Ltd.	49.00	-1,810,081.91		11,204,367.62

##### 3. Major financial information of the significant non-wholly-owned subsidiaries

Name of subsidiary	Current assets	Balance as at the end of the period				Total liabilities
		Non-current assets	Total assets	Current liabilities	Non-current liabilities	
Wenzhou Lucheng Yining Hospital Co., Ltd.	17,869,229.47	32,881,657.54	50,750,887.01	3,824,900.47		3,824,900.47
Zhejiang Huangfeng Hospital Management Co., Ltd.	32,255,289.46	49,857,282.75	82,112,572.21	15,520,519.19	8,630,533.42	24,151,052.61
Heze Yining Hospital Psychiatric Co., Ltd.	19,786,389.89	30,584,954.92	50,371,344.81	19,702,874.56	7,802,413.93	27,505,288.49

Name of subsidiary	Current assets	Balance as at the beginning of the period				Total liabilities
		Non-current assets	Total assets	Current liabilities	Non-current liabilities	
Wenzhou Lucheng Yining Hospital Co., Ltd.	25,379,262.35	27,840,260.56	53,219,522.91	3,485,000.00		3,485,000.00
Zhejiang Huangfeng Hospital Management Co., Ltd.	42,006,034.60	38,701,265.19	80,707,299.79	18,880,233.95	4,640,183.10	23,520,417.05
Heze Yining Hospital Psychiatric Co., Ltd.	11,418,227.77	36,765,845.89	48,184,073.66	18,756,948.70	9,677,674.65	28,434,623.35

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VII. Interests in other entities (Continued)

#### (I) Interest in subsidiaries (Continued)

##### 3. Major financial information of the significant non-wholly-owned subsidiaries (Continued)

Name of subsidiary	Revenue	Net profit	Amount for the current period	
			Total comprehensive income	Cash flows from operating activities
Wenzhou Lucheng Yining Hospital Co., Ltd.		-2,808,536.37	-2,808,536.37	-1,962,864.33
Zhejiang Huangfeng Hospital Management Co., Ltd.	41,268,564.44	3,754,636.86	3,754,636.86	10,236,414.27
Heze Yining Hospital Psychiatric Co., Ltd.	22,336,737.89	3,116,606.01	3,116,606.01	2,323,813.33
Name of subsidiary	Revenue	Net profit	Amount for the previous period	
			Total comprehensive income	Cash flows from operating activities
Wenzhou Lucheng Yining Hospital Co., Ltd.		-265,477.09	-265,477.09	-14,007,106.57
Zhejiang Huangfeng Hospital Management Co., Ltd.	9,217,050.99	1,729,050.58	1,729,050.58	7,271,042.46
Heze Yining Hospital Psychiatric Co., Ltd.	11,838,328.87	-3,694,044.71	-3,694,044.71	-1,456,589.72

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VII. Interests in other entities (Continued)

#### (II) Transactions resulting in the change in the share of owner's equity in the subsidiary without losing control

##### 1. Explanation of change in the share of owner's equity in the subsidiary

In August 2021, Zhejiang Kangning (a subsidiary of the Company) entered into the equity transfer agreement with Ningbo Meishan Bonded Port Area Kuanzhan Investment Management Partnership (Limited Liabilities Partnership) (hereinafter referred to as "Ningbo Kuanzhan"), Nanjing Yining Hospital Co., Ltd. (hereinafter referred to as "Nanjing Yining"), Zhejiang Kangning acquired 20.2658% of the equity of Nanjing Yining held by Ningbo Kuanzhan, and after the completion of such transaction, Zhejiang Kangning held 85.6479% of the equity of Nanjing Yining.

##### 2. Effect of the transactions on minority interest and equity attributable to the owners of the parent company

Items	Nanjing Yining
Cost of acquisition/consideration of disposal	
– Cash	8,000,000.00
– Fair value of non-cash assets	
Total cost of acquisition/consideration of disposal	8,000,000.00
Less: share of net assets in the subsidiary based on shares acquired/disposed	1,164,084.80
Difference	6,835,915.20
Of which: Capital reserve adjustment	6,835,915.20
Surplus reserve adjustment	
Undistributed profit adjustment	

#### (III) Interests in associates

##### 1. Significant associates

Name of associate	Major business location	Place of registration	Nature of business	Shareholding (%)		Accounting method for investment in joint ventures or associates	Whether strategic to the Company's activities or not
				Direct	Indirect		



## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VIII . Risks related to financial instruments

During its business operation, the Company faces various financial risks: credit risk, liquidity risk and market risk (including exchange rate risk, interest rate risk and other price risks). The financial risks and the risk management policies taken by the Company to mitigate these risks are set out as below:

The board of directors is responsible for planning and establishing the Company's risk management framework, formulating the Company's risk management policies and relevant guidelines, and supervising the implementation of risk management measures. The Company has formulated risk management policies to identify and analyze the risks the Company is exposed to. These risk management policies specify specific risks and cover many aspects such as market risk, credit risk and liquidity risk management. The Company regularly evaluates the changes in the market environment and the Company's business activities to decide whether to update the risk management policies and systems. The Company's risk management is carried out by the Risk Management Committee in accordance with the policies approved by the board of directors. The Risk Management Committee identifies, evaluates and avoids relevant risks through close cooperation with other business departments of the Company. The Company's internal audit department regularly audits the risk management controls and procedures, and reports their findings to the Company's Audit Committee.

The Company diversifies its exposure to financial instruments through an appropriately diversified portfolio of investments and businesses, and reduces the risk of concentration in a single industry, a specific region or a specific counterparty by formulating corresponding risk management policies.

#### (I) Credit risk

Credit risk refers to the risk of financial loss to the Company caused by the counterparty's failure to perform its contractual obligations.

The Company's credit risk mainly sources from monetary funds, notes receivable, accounts receivable, accounts receivable financing, other receivables, debt investment, other debt investment and the financial guarantee contract, and debt instrument investment and derivative financial assets measured at fair value through profit or loss, which are not included in the impairment assessment scope.

The Company's monetary funds are mainly bank deposits deposited in state-owned banks with good reputation and high credit rating and other large and medium-sized listed banks. The Company believes that there is no significant credit risk and it will hardly generate significant losses caused by bank default.

The Company's accounts receivables are mainly sales of medicines and provision of medical services to patients, and also management service fees receivables. According to the social security policy of each hospital of the Company, medical fees of patients are usually jointly borne by the patients and social insurance. The Company usually collects part of the advance payment during the patient admission procedures, and the patients are required to settle their responsible part of the fee during the discharge procedures. For those fees unsettled by the patients at the time of discharge, the Company will recover from the patients through regular collections. For the medical fees borne by social insurance, the Company will reimburse the social insurance institution in a timely manner after issuing invoices to patients. The reimbursement is usually recovered within 2-9 months after application, for which the Company believes that there is no major credit risk. Some of the medical fees are also paid by government departments such as the Civil Affairs Bureau and Disabled Person's Federation where the hospitals are located. The Company adopts different collection monitoring mechanisms for different payers.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VIII .Risks related to financial instruments (Continued)

#### (II) Liquidity risk

Liquidity risk refers to the risk of capital shortage when an enterprise fulfills its obligation to settle by delivering cash or other financial assets.

It is the Company`s policy to ensure that it has sufficient cash to meet debts due. Liquidity risk is centrally controlled by the financial department of the Company. By monitoring cash balances, marketable securities that can be readily liquidated and rolling projections of cash flows over the next 12 months, the finance department ensures that the Company has sufficient funds to repay its debts under all reasonable projections. At the same time, the finance department continuously monitors the Company`s compliance with borrowing agreements and obtains commitments from major financial institutions to provide adequate standby funds to meet short – and long-term funding needs.

Various financial liabilities of the Company shall be presented at undiscounted contractual cash flows on the maturity date as follows:

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VIII . Risks related to financial instruments (Continued)

#### (III) Market risk

Market risk associated with financial instruments refers to the risk of fluctuation in the fair value or future cash flows of financial instruments due to changes in market prices, and it includes exchange rate risk, interest rate risk and other price risks.

##### 1. *Interest rate risk*

Interest rate risk refers to the risk of fluctuation in the fair value or future cash flows of financial instruments due to changes in market interest rate.

The Group's interest rate risk mainly arises from long-term interest bearing borrowings including long-term borrowings. Interest-bearing financial instruments at fixed rates and at floating rates expose the Company to fair value interest risk and cash flow interest rate risk, respectively. The Company determines the appropriate weightings of the fixed and floating rate interest-bearing instruments based on the current market conditions and performs regular reviews and monitoring to maintain an appropriate mix of fixed and floating rate instruments. The Company will use derivative financial instruments to hedge interest rate risk when necessary.

On 31 December 2021, the Group's long-term interest bearing borrowings were mainly RMB-denominated with fixed rates.

##### 2. *Exchange rate risk*

Exchange rate risk refers to the risk of fluctuation in the fair value or future cash flows of financial instruments due to changes in foreign exchange rate.

The major operational activities of the Company are carried out within the PRC and a majority of the transactions are denominated in RMB. The Company is exposed to foreign exchange risk arising from the recognized assets denominated in foreign currencies (mainly denominated in USD and HKD). The finance department of the Company is responsible for monitoring the amount of assets and transactions denominated in foreign currencies, to reduce foreign exchange risk to the greatest extent.

The exchange rate risk faced by the Company mainly sources from the financial assets denominated in US dollars, and the foreign currency assets are equivalent to the amount denominated in RMB indicated as below:

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### VIII . Risks related to financial instruments (Continued)

#### (III) Market risk (Continued)

##### 3. *Other price risks*

Other price risks refer to the risks of fluctuation in the fair value or future cash flows of financial instruments due to changes in market prices other than exchange rate risk and interest rate risk.

The Company's other price risks arise primarily from investments in various equity instruments. There is the risk of changes in the prices of equity instruments.

On 31 December 2021, when all other variables remain unchanged, the net profits and other comprehensive income of the Company would increase or decrease by RMB2,274,368 and by RMB2,274,368, respectively supposing that the values of equity instruments increase or decrease by 3%, the management thinks that 3% reflects the reasonable range of the possible changes in the equity instruments in the next year.

### IX. Disclosure of fair value

The input value used for measuring fair value is divided into three levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can acquire on the measurement date;

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs that have been applied in valuing the respective asset or liability.

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### IX. Disclosure of fair value (Continued)

#### (I) Closing fair value of assets and liabilities measured at fair value

Item	Closing fair value			Total
	Measured at fair value at Level 1	Measured at fair value at Level 2	Measured at fair value at Level 3	
I. Continuous measurement of fair value				
¼Financial assets held for trading				
1. Financial assets measured at fair value through profit or loss			10,000,000.00	10,000,000.00
2. Financial asset designated to be measured at fair value through profit or loss				
¼Other non-current financial assets			65,812,274.58	65,812,274.58
1. Financial assets measured at fair value through profit or loss			65,812,274.58	65,812,274.58
2. Financial asset designated to be measured at fair value through profit or loss				
Total assets with continuous measurement of fair value			75,812,274.58	75,812,274.58

#### (II) Qualitative and quantitative information of valuation techniques and key parameters adopted for items measured at the fair value of level 3 on a going and non-going concern

The Company determines the fair value based on its share of the fair value of the equity.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### X. Related parties and related party transactions

#### (I) General information of the parent company

The ultimate controlling parties of the Company are: Guan Weili and his spouse Wang Lianyue.

#### (II) Information of the Company's subsidiaries

Details of the Company's subsidiaries are set out in Note VII. Interests in other entities".

#### (III) Information of the Company's joint ventures and associates

For details of the Company's significant joint ventures or associates, please refer to Note VII. Interests in other entities".

The following joint ventures or associates entered into related party transactions with the Company during the period or had balances of related party transactions with the Company during the previous period:

Name of joint venture or associate	Relationship with the Company
Hangzhou Anken Information Technology Co., Ltd.	Associate
Chengdu Yining Hospital Co., Ltd.	Associate
Jingyun Shuning Hospital Co., Ltd.	Associate
Chongqing Hechuan Kangning Hospital Co., Ltd.	Associate
Wenzhou Longwan Yining Hospital Co., Ltd.	Associate

#### (IV) Information of other related parties

Name of other related parties	Relationship with the Company
Yiwu Mental Health Centre	Non-profit organisation invested by the Company with council members assigned
Zhejiang Tianqu Environment Construction Co., Ltd.	Non-controlling shareholder of subsidiaries of the Company
Shandong Furen Hospital Management Co., Ltd.	Non-controlling shareholder of subsidiaries of the Company
Jilin Nuoyazhizhou Investment Co., Ltd.	Non-controlling shareholder of subsidiaries of the Company
Qu Kaisheng	Non-controlling shareholder of subsidiaries of the Company
Wu Lianxi	Non-controlling shareholder of subsidiaries of the Company
Ding Min	Non-controlling shareholder of subsidiaries of the Company
Chen Xianfa	Non-controlling shareholder of subsidiaries of the Company
Lin Yuanlong	Non-controlling shareholder of subsidiaries of the Company
Xu Yi	Spouse of a substantial shareholder of the Group
Other individuals	Immediate relatives of directors, supervisors and senior management
Guan Weili and his spouse Wang Lianyue	De facto controlling party
Wang Hongyue	Director, an immediate relative of de facto controlling party
Datong Yining Hospital Co., Ltd. ( ) • É ' < ë Þ " @ ! ( )	Investee
Wenzhou Anken Pharmacy Co., Ltd.	Investee
Ningbo Meishan Bonded Port Area Kuanzhan Investment Management Partnership (Limited Liabilities Partnership) ( ' * à † - ü ¥ 1 • 3 M # ¥ « † 8 ( Þ " ¥ « ) )	Participating shareholder of the Company's associate

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### X. Related parties and related party transactions (Continued)

#### (V) Information on related party transactions

##### 1. Related party transactions on purchase or sale of goods and provision or acceptance of services

###### Statement of sales of goods/provision of services

Related party	Content of related party transactions	Amount for the period	Amount for the previous period
Yiwu Mental Health Centre	Medical management service	3,000,000.00	3,000,000.00
Jingyun Shuning Hospital Co., Ltd.	Pharmaceutical sales	2,372,524.98	1,237,332.00
Wenzhou Anken Pharmacy Co., Ltd.	Pharmaceutical sales	357,686.46	2,144,334.00
Chongqing Hechuan Kangning Hospital Co., Ltd.	Pharmaceutical sales	97,389.80	
Hangzhou Anken Information Technology Co., Ltd.	Medical service		73,368.00
Hangzhou Anken Information Technology Co., Ltd.	Training expenses		4,220.00
Chengdu Yining Hospital Co., Ltd.	Sales of healthcare material		11,341.00
Wenzhou Anken Pharmacy Co., Ltd.	Prescription service	98,586.24	
Datong Yining Hospital Co., Ltd.	Training expenses		2,200.00
Related person	Medical service	682,184.79	629,767.00

##### 2. Leases with related parties

The Company acts as a lessor:

Name of lessee	Type of leased assets	Rental income recognized in the period	Rental income recognized in the previous period
Ningbo Free Trade Zone Shenghong Information Technology Co., Ltd. ( 1 * - ü Ä ç ! 1 Ä ! P " © ! )	Property lease	24,380.95	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### X. Related parties and related party transactions (Continued)

#### (V) Information on related party transactions (Continued)

##### 2. Leases with related parties (Continued)

The Company acts as a lessee:

Name of lessor	Type of leased assets	Amount for the period			Amount for the previous period		
		Rental expense for short-term leases and leases of low-value assets under the simplified approach and variable lease payments that are not included in the measurement of lease liabilities	Rent paid	Increase in right-of-use assets	Rental expense for short-term leases and leases of low-value assets under the simplified approach and variable lease payments that are not included in the measurement of lease liabilities	Rent paid	Increase in right-of-use assets
Zhejiang Tianqu Environment Construction Co., Ltd.	House and building	1,089,194.31		260,402.86	1,089,194.31		299,116.68

##### 3. Related party guarantees

The Company acts as a guarantor:

Name of guaranteed party	Guaranteed amount	Commencement date	Expiry date	Whether the guarantee has been fulfilled
Yongjia Kangning Hospital Co., Ltd.	50,200,000.00	26 August 2019	20 August 2029	No
Qingtian Kangning Hospital Co., Ltd.	45,000,000.00	31 December 2019	31 December 2024	No

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### X. Related parties and related party transactions (Continued)

#### (V) Information on related party transactions (Continued)

##### 3. Related party guarantees (Continued)

The Company acts as the guaranteed party:

Name of guarantor	Guaranteed amount	Commencement date	Expiry date	Whether the guarantee has been fulfilled
Guan Weili and Wang Lianyue	30,000,000.00	30 June 2020	30 June 2027	No
Guan Weili, Wang Hongyue and Wang Lianyue	75,000,000.00	29 November 2021	29 November 2028	No
Guan Weili, Wang Hongyue, Wang Lianyue and Xu Yi	150,000,000.00	26 October 2020	25 October 2026	No
Guan Weili, Wang Lianyue and Wang Hongyue	200,000,000.00	17 September 2020	17 September 2023	No

##### 4. Asset transfer and debt restructuring of related parties

Related party	Content of related party transactions	Amount for the period	Amount for the previous period
Guan Weili	75% equity interest in Wenzhou Guoda	55,000,000.00	
Ningbo Meishan Bonded Port Area Kuanzhan Investment Management Partnership (Limited Liabilities Partnership) (宁波梅山保税港区关庄股权投资管理有限公司)	20.2658% equity interest in Nanjing Yining	8,000,000.00	
	99.6133% equity interest in Wenzhou Cining		53,282,480.86
Wang Hongyue	17.8% equity in Wenling Nanfang	6,230,000.00	

##### 5. Remuneration of key management

Item	Amount for the period	Amount for the previous period
Wages and salaries, and bonus	5,760,997.06	5,041,695
Share-based payment	4,757,885.01	490,634

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### X. Related parties and related party transactions (Continued)

#### (VI) Receivables from and payables to related parties

##### 1. Receivables

Items	Related parties	Balance as at the end of the period		Balance as at the end of the previous year	
		Book value	Provision for bad debts	Book value	Provision for bad debts
Accounts receivable					
	Chongqing Hechuan Kangning Hospital Co., Ltd.	13,425.60	134.26		
	Jinyun Shuning Hospital Co., Ltd.	899,699.60	8,997.00	398,199.42	3,981.99
	Wenzhou Anken Pharmacy Co., Ltd.			157,108.21	1,571.08
	Yiwu Mental Health Centre	7,500,000.00	1,500,000.00	7,250,000.00	1,470,000.00
Other receivables					
	Hangzhou Anken Information Technology Co., Ltd.			4,032,035.80	201,602.00
	Chengdu Yining Hospital Co., Ltd.			15,771,065.00	788,553.00
	Non-profit organisation established by the Group			4,216,696.81	210,835.00
	Wenzhou Longwan Yining Hospital Co., Ltd.			10,000.00	500.00
	Ding Min			1,000,000.00	50,000.00
	Chen Xianfa			991,654.14	49,583.00
	Lin Yuanlong			92,186.41	4,609.00
	Wang Hongyue	12,877.91		12,877.91	

##### 2. Payables

Items	Related parties	Book value as	Book value as
		at the end of the period	at the end of the previous year
Other payables			
	Qu Kaisheng	2,064,354.30	4,074,900.00
	Shandong Furen Hospital Management Co., Ltd.	5,719,513.95	5,844,383.00
	Hangzhou City Yuhang District Yining Disabled Nursing Center		9,990.00
	Zhejiang Tianqu Environment Construction Co., Ltd.		23,252.00
	Lin Jianguo		848,394.00
	Wu Lianxi	3,179,422.51	2,917,717.00
	Wang Hongyue	1,972,561.33	1,972,561.33
Lease liabilities			
	Zhejiang Tianqu Environment Construction Co., Ltd.	3,071,553.69	4,769,747.37

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### X. Related parties and related party transactions (Continued)

#### (VII) Equity and interest of directors

In 2021, the emoluments of each director, supervisor and chief executive were shown below:

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### X. Related parties and related party transactions (Continued)

#### (VII) Equity and interest of directors (Continued)

In 2020, the emoluments of each director, supervisor and chief executive were shown below:

Name	Emoluments	Salaries and subsidies	Contributions to pension plans	Bonus	Other welfare	Total
Executive directors						
Guan Weili	–	398,454	18,205	89,291	34,180	540,130
Wang Lianyue	–	326,454	–	128,611	28,212	483,277
Wang Hongyue	–	184,330	8,335	105,865	41,798	340,328
Non-executive directors						
Lin Lijun	–	–	–	–	–	–
Yang Yang	–	–	–	–	–	–
Independent directors						
Zhao Xudong	35,000.00	–	–	–	–	35,000.00
Zhong Wentang	35,000.00	–	–	–	–	35,000.00
Liu Ning	35,000.00	–	–	–	–	35,000.00
Ge Chuangji	35,000.00	–	–	–	–	35,000.00
Zhuang Yiqiang	35,000.00	–	–	–	–	35,000.00
Huang Zhi	35,000.00	–	–	–	–	35,000.00
Supervisors						
Huang Jingou	–	–	–	–	–	–
Qian Chengliang	–	–	–	–	–	–
Chen Jian	–	–	–	–	–	–
Sun Fangjun	–	–	–	–	–	–
Xie Tiefan	–	71,074	8,722	68,526	17,723	166,045
Total	210,000.00	980,312	35,262	392,293	121,913	1,739,780

#### (VIII) Five Individuals with Highest Remunerations

In 2021, five individuals with highest remunerations of our company include 3 directors (2020: nil), whose remunerations are reflected in below table:

Items	Amount for the current period	Amount for the previous period
Wages and salaries, and bonus	3,424,382.50	4,449,720.00
Share-based payments	4,411,564.18	305,924.00
Total	7,835,946.68	4,755,644.00

  

Remuneration band	Number of individuals for the current period	Number of individuals for the previous period
500,000-1,000,000.00	1	3
Over 1,000,000.00	4	2
Total	5	5

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XI. Share-based payment

#### (I) Summary of share-based payment

Total equity instruments of the Company granted in the current period:

On June 13, 2018, the Company held its annual shareholder's meeting of 2018 and approved *Wenzhou Kangning Hospital Equity Payment Plan 2018*, which authorised the Board to handle the Company's employee share incentive plan. The Board of the Company reviewed and approved *Proposal on the Granting of Restricted Shares to Incentive Objects* on June 29, 2018 and August 20, 2018. The Company prepared to establish five employee share ownership platforms, including Wenzhou Zhenyan Kangning Investment Management Partnership (Limited Liabilities Partnership), Wenzhou Jiamei Kangning Investment Management Partnership (Limited Liabilities Partnership), Wenzhou Enquan Kangning Investment Management Partnership (Limited Liabilities Partnership), Wenzhou Jiate Kangning Investment Management Partnership (Limited Liabilities Partnership) and Wenzhou Shouwang Kangning Investment Management Partnership (Limited Liabilities Partnership), and issue 2,460,000 domestic shares to these employee share ownership platforms at an issue price of RMB10.47 per share. As of December 31, 2020, there were 1,919,771 shares granted and 540,229 shares reserved.

On April 16, 2021, the eighth meeting of the third session of the Board of the Company reviewed and approved *Proposal on the Granting of Restricted Stocks to the Third Phase Incentive Objects under the Restricted Share Incentive Plan*, pursuant to which the Board of the Company agreed to take April 16, 2021 as the grant date, and grant the remaining 540,229 incentive stocks to 13 third phase participants who met the conditions for such grant at a grant price of RMB10.47 per share.

Total exercised equity instruments of the Company in the current period: nil

Total invalid equity instruments of the Company in the current period: nil

Range of exercise prices and remaining contractual period for other equity instruments of the Company at the end of the period:

The range of exercise prices for other equity instruments at the end of the period can refer to the transaction price among shareholders in the current period, and the remaining period is 8 months from the date of the first award based on a locked-up period of 48 months.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XI. Share-based payment (Continued)

#### (II) Equity-settled share-based payment

Method for determining the fair value of equity instruments at the grant date:

The Company engaged a professional appraisal institution to assess the fair value of the equity instruments at the grant date. The fair value of the equity instruments granted in the current period was assessed by reference to the transaction price among the shareholders of the Company of RMB30 per share.

Method for determining the best estimate of the number of exercisable equity instruments:

In June 2021, the Board of the Company reviewed and approved *Proposal on Further Amendments to the Equity Incentive Plan*, which cancelled the performance appraisal requirements of the Equity Incentive Plan. Therefore, only the in-service requirement during the locked-up period would affect the number of exercisable equity instruments, so the best estimate of the number of exercisable instruments was made based on the relevant severance rate.

Reasons for significant difference between current estimate and previous estimate: nil

Accumulated amount of equity-settled share-based payment included in the capital surplus:

As of December 31, 2021, the accumulated amount of equity-settled share-based payment included in the capital surplus was RMB32,642,955.35.

Total amount of equity-settled share-based payment recognized in the current period: RMB15,932,752.35

#### (III) Modification and cancelation of share-based payment

In June 2021, the Board of the Company reviewed and passed *Proposal on Further Amendments to the Equity Incentive Plan*, which cancelled the performance appraisal requirements of the equity incentive plan and the Company's repurchase obligation of locked incentive shares.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XII. Commitments and Contingencies

#### (I) Significant commitments

##### 1. Mortgaged assets

Mortgagor	Mortgagee	Book value of mortgaged assets			Purpose	Starting date	Expiry date	Amount
		Land use rights	Buildings	Equipment				
Wenzhou Kangning Hospital Co., Ltd.	Wenzhou Ouhai Sub-branch of CITIC Bank		36,688,017.03		Short-term borrowings	2021/3/01	2022/2/28	60,000,000.00
					Short-term borrowings	2021/1/18	2022/12/18	70,000,000.00
					Short-term borrowings	2021/1/26	2022/11/26	40,000,000.00
					Short-term borrowings	2021/12/09	2022/12/09	30,000,000.00
Total			36,688,017.03		/	/	/	200,000,000.00

##### Other explanation:

- (1) The real estate title certificates of Wenzhou Kangning Hospital Co., Ltd., which have been registered for the mortgage, are Wen Fang Quan Zheng Lu Cheng Qu Zi No.826751, Wen Fang Quan Zheng Lu Cheng Qu Zi No.826750, Zhe (2016) Wen Zhou Si Bu Dong Chan Quan No.0010144, Zhe (2016) Wen Zhou Si Bu Dong Chan Quan No.0010142, Zhe (2021) Wen Zhou Si Bu Dong Chan Quan No.0081628.

##### 2. Pledged assets

Pledger	Pledgee	Pledged assets	Book value of pledged assets		Purpose	Starting date	Expiry date	Amount
			100% equity interest in Pingyang Cining Hospital Co., Ltd.	100% equity interest in Pingyang Changgeng Yining Hospital Co., Ltd.				
Guan Weili, Wang Lianyue	Wenzhou Longwan Sub-branch of China Minsheng Bank	100% equity interest in Wenzhou Cining Hospital Co., Ltd.	53,500,000.00		M&A loans and borrowings	2020/06/30	2027/06/30	18,000,000.00
Guan Weili, Wang Hongyue, Wang Lianyue	Wenzhou Longwan Sub-branch of China Minsheng Bank	100% equity interest in Pingyang Changgeng Yining Hospital Co., Ltd.	154,744,700.00		M&A loans and borrowings	2021/11/29	2028/11/29	12,000,000.00
Total		/	208,244,700.00		/	/	/	105,000,000.00

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XII. Commitments and Contingencies (Continued)

#### (I) Significant commitments (Continued)

##### 3. Capital expenditure commitments

Capital expenditures contracted for by the Group at the balance sheet date but are not yet necessary to be recognized on the balance sheet are as follows:

	December 31, 2021	December 31, 2020
Buildings, machinery and equipment	643,500.00	113,011,463.00
Intangible assets	429,888.00	27,156,900.00
Total	1,073,388.00	140,168,363.00

#### (II) Contingencies

The Company had no significant contingencies that need to be disclosed.

### XIII .Events after the balance sheet date

#### (I) Profit distribution

No dividend will be distributed for 2021.

#### (II) Description of other events after the balance sheet date

- (1) In September 2022, the board of directors of the Company announced that Ms. Wang Hongyue had resigned as an executive director of the Company and the authorised representative of the Company under Rule 3.05 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Meanwhile, the board of directors further announced that Mr. Guan Weili had been or appointed as the authorised representative of the Company.
- (2) In October 2022, the Company and its subsidiaries Wenzhou Yining Hospital, Cangnan Kangning Hospital, Wenzhou Cining Hospital entered into a sale-leaseback contract with Yuandong Hongxin, under which the Company and the above subsidiaries will sell their own leased assets to Yuandong Hongxin, while Yuandong Hongxin will lease back the lease assets to the Company and related subsidiaries for use. The original carrying value of the leased assets involved was approximately RMB 92.47 million, while consideration of the transaction was RMB 80 million, and the total leaseback cost was RMB 88.74 million.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XIV. Capital management

The main objectives of the Company's capital management are:

- Ñ to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and other stakeholders on an on-going basis;
- Ñ to price the products and services according to the risk level, so as to provide sufficient returns to shareholders.

The Company set a capital that is proportional to the risk. The capital structure is managed and adjusted according to the change of economic environment and the risk characteristics of the target assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Company is not subject to external mandatory capital requirements and uses gearing ratio to monitor capital.

As at the balance sheet date, the Company's gearing ratio is as follows:

	Balance as at the end of the period	Balance as at the end of the previous year
Debt/capital ratio	46.68%	44.21%

# Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

## XV. Other significant events

### (I) Other significant issues which influence the decision making of investors

#### 1. Independent investigation for relevant matters

##### (1) The background of the independent investigation

On December 8, 2021, the Audit Committee of the Company received a letter from its former accountants, for which the Company convened a special meeting of the Audit Committee on December 10, 2021 to review the significant amounts of abnormal or alleged abnormal cash flows noticed by the former accountants as follows:

##### ú Findings on Verification of Cash Flows in Personal Bank Accounts of Key Financial Personnel of the Company

A former individual minority shareholder of a subsidiary of the Company, an individual investor who is an investor of a fund that invested in certain subsidiaries of the Company and two renovation service suppliers of the Company transferred funds to a certain accountants and cashiers of the Company. They withdrew the funds in cash and deposited the funds into the bank accounts of the Company. Subsequently, the accounting staff of the Company 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.

##### û Findings on Verification of Cash Flows in Personal Bank Account of an Employee of the Social Work Department of the Company

An 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 relevant financial statements.

##### ü Findings on Verification of Cash Flows in Personal Bank Account of a Senior Management Officer of the Company

Ms. WANG Hongyue, the former chief financial officer of the Company, had a substantial amount of fund transfers with a renovation supplier, a former individual minority shareholder of a subsidiary of the Company and an individual investor in a fund that invested in certain subsidiaries of the Company. The net inflows of such transfers amounted to RMB9.5 million for the period from January 1, 2018 to June 30, 2021.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XV. Other significant events (Continued)

#### (I) Other significant issues which influence the decision making of investors (Continued)

##### 1. *Independent investigation for relevant matters (Continued)*

##### (1) The background of the independent investigation (Continued)

On December 16, 2021, the Board of the Company convened a meeting to consider the above outstanding issues and approved the establishment of the Independent Investigation Committee, which comprises Ms. Zhong Wentang and Mr. Liu Ning as the independent non-executive directors of the Company, Mr. Li Changhao as the non-executive director, Mr. Qin Hao as the non-executive director, and Mr. Xu Yongjiu as the independent supervisor. On March 14, 2022, the Independent Investigation Committee of the Company engaged an independent third-party accounting firm as independent investigator to investigate in respect of the above outstanding issues. The independent investigator completed such works during March 2022 to September 2022 and issued an independent investigation report in respect of the above outstanding issues on October 14, 2022. The Independent Investigation Committee also engaged an independent third-party law firm to provide legal support in respect of the investigation required.

##### (2) Summary of the Findings of the Independent investigation

On 14 October, 2022, the Independent Investigation Committee discussed, considered and approved the independent investigation report provided by the independent Firm, the relevant investigation findings of which are as follows:

##### ú Cash Flows in Personal Bank Accounts of Key Financial Personnel

Ms. WANG Hongyue, the former chief financial officer of the Company, stated that the fund of RMB14.43 million involved with the issues was from the donations she raised from relevant persons for patients with financial difficulties. However, the findings reveal the relevant facts suggest the cash flows, in nature, were not donated after arms-length negotiation.

i Two donators confirmed in interviews the they made donations to the Company. One of the donators said the donations were made because of the benefits he made from his past provision of services to the Company and saw his donations as a gesture of goodwill on which a long-term cooperation with the Company can be built upon. However, there is notable inconsistencies between the aforesaid account of events and that of another donator.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XV .Other significant events (Continued)

#### (I) Other significant issues which influence the decision making of investors (Continued)

##### 1. *Independent investigation for relevant matters (Continued)*

##### (2) Summary of the Findings of the Independent investigation (Continued)

##### ú Cash Flows in Personal Bank Accounts of Key Financial Personnel (Continued)

- ii According to Ms. WANG Hongyue, some of the donations made by a former individual minority shareholder of a subsidiary of the Company were in fact came from another person, who agreed to donate to the Company due to the fact he rent a property of Wenzhou Guoda Investment Co., Ltd. (a subsidiary of the Company at the time) at a price lower than market rate. However, during the interviews with the person, he described the relevant cash flows not as donations but a form of compensation to settle a negotiation with Ms. WANG Hongyue regarding a potential rent increase.
- iii The donations were processed in a convoluted manner. In particular, 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 relevant 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 also personally contributed to some of the donations, for which the investigation was unable to confirm the reasonableness of the relevant explanation.

In addition, the investigation also 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. The Investigation Firm performed a sample testing on medical records of the patients involved in the donations of RMB14.43 million, and found no abnormality in the real existence of such patients.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XV .Other significant events (Continued)

#### (I) Other significant issues which influence the decision making of investors (Continued)

##### 1. *Independent investigation for relevant matters (Continued)*

##### (2) Summary of the Findings of the Independent investigation (Continued)

##### û Cash Flows in Personal Bank Account of an Employee of the Social Work Department

During the Review Period, the employee of the Social Work Department received RMB12.1116 million in total from five renovation suppliers, all of which were controlled by the same individual, and related parties. According to the employee of the Social Work Department, her spouse worked with the individual on ten projects, from which the individual received a total of RMB16.0911 million in payments from the Company (which accounted for 42% of all payments from the Company to the individual during the Review Period). After deducting the relevant project costs, analysis estimates that the profit for the employee of the Social Work Department and/or her spouse from the ten Company projects was approximately RMB0.8 million. Meanwhile, the Independent Investigation Firm points out that most of the profit estimated by the analysis corresponded to no supporting documents, payments cannot be reconciled to individual projects, and the employee of the Social Work Department or her spouse did not prepare or keep the goods receipt note in relation to these project costs.

##### ü Cash Flows in Personal Bank Account of a Senior Management Officer of the Company

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 Huainan Kangning Hospital Co., Ltd. whose interest was acquired by the Company in May 2019;
- ii an individual contributor to an existing minority shareholder of certain subsidiaries (the “Contributor ”);
- iii an individual who provided construction and renovation services to the Company (the “Renovation Supplier”).

Regarding the nature of the fund transfers, Ms. WANG Hongyue stated that the inflows were loans provided to her by the Individuals of Interest, and that the outflows were her repayments of such loans or interest payments to the Individuals of Interest. However, the Independent Investigation Firm cannot identify these cash flows were loans and repayments as they did not reflect the common characteristics of loans.

In addition to the said Individuals of Interest, significant fund flows totalling RMB83.4 million, of which approximately RMB61.5 million had been repaid, with other 15 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.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XV. Other significant events (Continued)

#### (I) Other significant issues which influence the decision making of investors (Continued)

##### 1. Independent investigation for relevant matters (Continued)

##### (3) Opinions of the Board (Continued)

- ú Carrying out the necessary changes to the Board and the management of the Company (Continued)

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

- û Regarding the personal interests obtained by Ms. WANG Hongyue from the matters involved, the Company will consider commencing judicial proceedings for civil recovery against her after obtaining legal advice on the same.

- ü Strengthening the use of external expert support.

- ý Reassessing accounting treatments and making necessary corrections of prior accounting errors

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 reassess the recoverability of the historical arrears and make necessary corrections of prior accounting errors. For details, please refer to Note VX(II).

- þ Relevant treatment of the Indirect Investor and the Renovation Supplier and their Actual Controller involved in the matters.

The Board has determined that the Indirect Investor involved in the matters and the fund invested by it are regarded as connected persons or related parties of the Company and included the Renovation Supplier and its Actual Controller involved in the matters in the vendors blacklist of the Company.

- ÿ Strengthening the internal control system and compliance supervision.

On October 26, 2022, the Proposal on Correction of Prior Accounting Errors to the Disclosed 2020 Financial Statements was considered and approved by the Board of the Company. The prior accounting error was corrected for the donation of RMB14.43 million involved in cash flows in the personal bank accounts of key finance personnel according to the proposal. For details, please refer to Note VX(II)/(1). Cash flows in the personal bank account of a certain employee from the Social Work Department and Cash flows in personal bank account of a senior management officer of the Company primarily involve relevant individuals and have no significant impact to the financial statements. The Company intends to consider further judicial proceedings for recovery after obtaining relevant legal advice.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XV .Other significant events (Continued)

#### (II) Corrections of prior accounting errors

##### 1. *Retrospective restatement method*

On October 26, 2022, the Proposal on Correction of Prior Accounting Errors to the Disclosed 2020 Financial Statements was considered and approved on the Twenty-Eighth Meeting of the Third Session of the Board of Directors and the Eighth Meeting of the Third Session of the Supervisory Committee of the Company. The correction of errors to the disclosed 2020 financial statements is as follows:

##### (1) Correction of the questionable accounts receivable collected to liabilities

The independent investigation indicated that in 2019 and 2020, RMB14.43 million of the accounts receivable collected by the Company were not fairly agreed donations, other than RMB5.25 million could be recognized rental compensation, and the source of funding for the remaining RMB9.18 million was questionable. As recommended by the independent investigation committee and resolved by the Board, the above-mentioned RMB14.43 million was treated. The impact of the error correction on the 2020 financial statements was to increase other receivables by RMB12,878, increase other payables by RMB9,203,741, increase advance proceeds by RMB4,079,444, increase revenue by RMB582,778 and decrease the retained earnings at the beginning of the period by RMB13,878,841.

##### (2) Reversal of donations from charities to patients to non-operating income

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

##### (3) Revaluation of adjustments to income and relevant accounts receivable and provision for bad debts from variable consideration reversal amounts

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

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

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XV. Other significant events (Continued)

#### (II) Corrections of prior accounting errors (Continued)

##### 1. Retrospective restatement method (Continued)

##### (5) Other error corrections not directly related to the independent investigation matters

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

	Affected items in the financial statements for 2020	Cumulative affected amount
Correction of accounting errors		
Expenses and income arising from donations from the same charitable organization are presented on a net basis	Non-operating income Non-operating expenses	-6,500,000.00 -6,500,000.00
Correction of a step-by-step corporate combination not under the common control to a business combination under a package deal arrangement	Goodwill Capital surplus Non-controlling interests	7,594,255.97 7,776,668.38 -182,412.41
Correction of errors in subsequent measurements based on latest available audit reports of associates	Long-term equity investments Investment income Capital surplus	4,090,422.02 696,746.86 4,914,906.11
Correction of errors in contracts which satisfy the nature of leases in accordance with leasing standards	Retained earnings at the beginning of the period Right-of-use assets Advances to suppliers Lease liabilities Cost of sales Finance expenses Retained earnings at the beginning of the period	-1,521,228.40 5,044,160.68 -604,065.91 4,799,946.03 -10,986.59 255,693.81 -115,144.04
Correction of intermediary fees prior to IPO filing from prepayments to general and administrative expenses	Prepayments General and administrative expenses	-1,414,306.57 1,414,306.57
Correction of cost of sales settled across periods	Accounts payable Cost of sales	2,381,936.94 2,381,936.94
Correction of the presentation of cost of sales and general and administrative expenses	Cost of sales General and administrative expenses	-1,900,144.79 1,900,144.79
Correction of errors in provision for bad debts of other receivables from cancelled subsidiaries	Provision for bad debts of other receivables Retained earnings at the beginning of the period	-30,010.00 30,010.00
As the above errors related to subsidiaries, they had an impact on the net assets of the Company calculated on an ongoing basis at the point of acquisition of the non-controlling shareholders of the relevant subsidiaries, and on the non-controlling interests of the Company as of the balance sheet date	Capital surplus Retained earnings at the beginning of the period Non-controlling interests	1,544,299.31 8,186,821.64 -9,731,120.95
Other reclassification errors	Accounts receivable Receipts in advance	564,833.66 564,833.66

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XV .Other significant events (Continued)

#### (II) Corrections of prior accounting errors (Continued)

##### 2. Effects of correction of the accounting errors in prior periods on the 2020 financial statements

##### (1) Consolidated income statement

Item	After restatement	Cumulative effect of the error correction	Before restatement
1. Revenue	989,012,003.88	-42,271,755.79	1,031,283,759.67
Including: Revenue from main businesses	935,611,626.10	-42,854,533.90	978,466,160.00
Revenue from other businesses	53,400,377.78	582,777.78	52,817,600.00
2. Total cost of sales	729,172,657.37	470,805.56	728,701,851.81
Including: Cost of sales from main businesses	701,510,603.37	470,805.37	701,039,798.00
General and administrative expenses	128,376,895.20	3,314,451.36	125,062,443.84
Financial expenses	23,077,402.10	255,694.06	22,821,708.04
Investment income	-6,968,566.05	696,745.40	-7,665,311.45
Credit impairment losses	-483,491.92	22,642,263.79	-23,125,755.71
3. Operating profit	74,923,423	-22,973,697	97,897,120
Add: Non-operating income	3,796,776.93	2,887,737.36	909,039.57
Less: Non-operating expenses	4,401,945.19	-6,500,000.00	10,901,945.19
4. Total profit	74,318,254	-13,585,961	87,904,215
Less: Income tax expenses	30,662,195.18	1,713,524.21	28,948,670.97
5. Net profit	43,656,059.34	-15,299,484.43	58,955,543.77
6. Net other comprehensive income after tax	43,656,059.34	-15,299,484.43	58,955,543.77
Including: Total comprehensive income attributable to owners of the parent company	55,770,161	-14,229,973	70,000,134
Total comprehensive income attributable to non-controlling shareholders	-12,114,102	-1,069,512	-11,044,590

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XV. Other significant events (Continued)

#### (II) Corrections of prior accounting errors (Continued)

##### 2. Effects of correction of the accounting errors in prior year on the 2020 financial statements (Continued)

##### (2) Consolidated Balance Sheet

Item	After restatement	Cumulative effect of the error correction	Liabilities receivable before restatement
<b>Assets</b>			
<b>Current assets:</b>			
Accounts receivable	233,405,184.94	-121,910,386.65	355,315,571.59
Less: Provision for bad debts of accounts receivable	8,104,937.93	-25,802,668.34	33,907,606.27
Net accounts receivable	225,300,247.01	-96,107,718.31	321,407,965.32
Advances	9,909,510.16	-2,018,372.22	11,927,882.38
Other receivables	68,262,204.68	12,878.07	68,249,326.61
Less: Provision for bad debts of other receivables			
	Accounts receivable	53 Td51.88es	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XV. Other significant events (Continued)

#### (II) Corrections of prior accounting errors (Continued)

##### 2. *Effects of correction of the accounting errors in prior periods on the 2020 financial statements (Continued)*

##### (2) Consolidated Balance Sheet (Continued)

###### Independent Non-executive Directors' Opinion

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

###### Board's Opinion

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

###### Supervisory Committee's Opinion

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

###### Audit Committee's Opinion

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

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XV .Other significant events (Continued)

#### (III) Segment Information

1. *Basis of determination and accounting policy for reporting segments*

Each segment of the Company provides different products and services or engages in business operations at different areas. Due to demands of each segment for different technology and market strategy, the Company's management monitors different segments in respect of their business activities separately, and evaluates their operating results on a regular basis in order to allocate resources and evaluate performance.

As the Company transferred its equity interest in Wenzhou Guoda Investment in June 2021, and the proportion of revenue, net profit and total assets of Wenzhou Guoda Investment for 2020 was no longer significant, the Company had only one reporting segment.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XVI. Notes to major items in the financial statements of the parent company

#### (I) Accounts receivable

##### 1. Accounts receivable disclosed by aging

Aging	Balance as at the end of the period	Balance as at the end of the previous year
Within 1 year	40,904,137.67	46,183,735.86
1 – 2 years	1,282,268.26	2,777,140.76
2 – 3 years	2,748,299.92	1,805,801.09
3 – 4 years	1,204,242.08	
Subtotal	46,138,947.93	50,766,677.71
Less: Provision for bad debts	3,065,927.86	507,666.78
Total	43,073,020.07	50,259,010.93

# Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

## XVI. Notes to major items in the financial statements of the parent company (Continued)

### (I) Accounts receivable (Continued)

#### 2. Accounts receivable disclosed by classification of provision for bad debts

Category	Balance as at the end of the period		Balance as at the end of the previous year	
	Book balance	Proportion of provision for bad debts (%)	Book balance	Proportion of provision for bad debts (%)
Accounts receivable with provision for bad debts on individual basis	5,315,384.45	11.52	2,657,692.23	50.00
Including:				
medical fees due from patients	5,315,384.45	11.52	2,657,692.23	50.00
Accounts receivable with provision for bad debts on the grouping basis	40,823,563.48	88.48	408,235.63	1.00
Including:				
Overdue days grouping	40,823,563.48	88.48	408,235.63	1.00
Total	46,138,947.93	100.00	43,073,020.07	100.00
			50,766,677.71	100.00
			507,666.78	1.00
			50,259,010.93	100.00

#### Accounts receivable with provision for bad debts on individual basis:

Items	Balance as at the end of the period		Balance as at the end of the previous year	
	Book balance	Proportion of bad debts (%)	Book balance	Proportion of bad debts (%)
medical fees due from patients	5,315,384.45	2,657,692.23	50.00	Provision for bad debts based on expected credit losses for the entire period
Total	5,315,384.45	2,657,692.23	/	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XVI. Notes to major items in the financial statements of the parent company (Continued)

#### (I) Accounts receivable (Continued)

##### 2. Accounts receivable disclosed by classification of provision for bad debts (Continued)

Accounts receivable with provision for bad debts on the grouping basis:

Item	Balance as at the end of the period		
	Accounts receivable	Provision for bad debts	Proportion of provision (%)
Overdue days grouping	40,823,563.48	408,235.63	1.00
Total	40,823,563.48	408,235.63	/

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XVI. Notes to major items in the financial statements of the parent company (Continued)

#### (I) Accounts receivable (Continued)

##### 3. Provision for bad debts provided for, reversed or recovered in the current period

Category	Balance as at the end of the previous year	Changes in the current period		Balance as at the end of the period
		Provided for	Recovered or reversed	
Provision for bad debts made on individual basis		2,657,692.23		2,657,692.23
Provision for bad debts made on grouping basis	507,666.78		99,431.15	408,235.63
Total	507,666.78	2,657,692.23	99,431.15	3,065,927.86

##### 4. The top five debtors of accounts receivable as at the end of the period

Name of the units	Balance as at the end of the period		Provision for bad debts
	Accounts receivable	As a proportion in total accounts receivable (%)	
Wenzhou Medical Insurance Administrative Center	35,815,539.02	77.63	358,155.39
Pingyang Changgeng Hospital Co., Limited	5,315,384.45	11.52	53,153.84
Health Bureau of Ouhai District Ouhai District Education Bureau of Wenzhou City	280,000.00	0.61	2,800.00
Yongjia County Health Bureau	268,000.00	0.58	2,680.00
Total	41,811,923.47	90.63	418,119.23

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XVI. Notes to major items in the financial statements of the parent company (Continued)

#### (II) Other receivables

Items	Balance as at the end of the period	Balance as at the end of the previous year
Interest receivable		
Dividends receivable		
Other receivables	492,034,884.26	521,673,903.80
Total	492,034,884.26	521,673,903.80

#### 1. Other receivables

##### (1) Disclosure by age

Aging	Balance as at the end of the period	Balance as at the end of the previous year
Within 1 year	253,730,469.51	245,300,434.47
1 – 2 years	194,147,157.53	91,420,369.08
2 – 3 years	20,317,926.92	162,526,607.60
over 3 years	21,389,748.34	25,532,265.19
Subtotal	489,585,302.3	524,779,676.34
Less: Provision for bad debts	123,061.04	3,105,772.54
Total	492,034,884.26	521,673,903.80

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XVI. Notes to major items in the financial statements of the parent company (Continued)

#### (II) Other receivables (Continued)

##### (2) Disclosure by classification method of bad debts

Category	Balance as at the end of the period		Provision for bad debts		Proportion of provision (%)		Book balance		Balance as at the end of the previous year	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Provision for bad debts on individual basis										
Including:										
Xiong Guoxiu, Min Honggen										
Provision for bad debts on the grouping basis	492,157,946.30	100.00	123,061.04	0.03	488,962,241.26	99.59	522,623,561.34	99.59	3,105,772.54	0.27
Including:										
Aging grouping	10,597,501.99	2.15	123,061.04	1.16	10,474,440.95	5.74	30,127,872.20	5.74	3,105,772.54	10.31
Amounts from related parties within the scope of consolidation	481,560,443.31	97.85			481,560,443.31	94.26	494,651,804.14	94.26		494,651,804.14
Total	489,085,302.30	100.00	123,061.04	/	488,962,241.26	100.00	524,779,676.34	100.00	3,105,772.54	/

##### Other receivables with provision for bad debts on the grouping basis:

Name	Balance as at the end of the period		Provision for bad debts		Proportion of provision (%)	
	Other receivables	Amount	Amount	Proportion (%)	Amount	Proportion (%)
Aging grouping		10,597,501.99	123,061.04	1.16		
Amounts from related parties within the scope of consolidation		478,487,800.31				
Total		489,085,302.30	123,061.04	/		

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XVI. Notes to major items in the financial statements of the parent company (Continued)

#### (II) Other receivables (Continued)

##### (3) Provision for bad debts

	Stage 1 12-month ECL	Stage 2 Lifetime ECL (No credit impairment)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Provision for bad debts				
Balance as at the end of the previous year	3,105,772.54			3,105,772.54
Balance as at the end of the previous year that transferred/ reversed in the current period	-36,823.07		36,823.07	
ÑTransferred to stage 2				
ÑTransferred to stage 3	-36,823.07		36,823.07	
ÑReversed to stage 2				
ÑReversed to stage 1				
Provision for the current period			662,173.96	662,173.96
Reversal in the current period	585,256.47			585,256.47
Written back in the current period	1,247,430.43			1,247,430.43
Written off in the current period			2,397,455.03	2,397,455.03
Other changes				
Balance as at the end of the period	123,061.04			123,061.04

Changes in the book value of other receivables are as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL (No credit impairment)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Book value				
Balance as at the end of the previous year	522,623,561.34		2,156,115.00	524,779,676.34
Balance as at the end of the previous year that transferred/ reversed in the current period	-241,340.03		241,340.03	
ÑTransferred to stage 2				
ÑTransferred to stage 3	-241,340.03		241,340.03	
ÑReversed to stage 2				
ÑReversed to stage 1				
Addition for the current period				
Derecognition for the current period	30,224,276.01		2,397,455.03	32,621,731.04
Other changes				
Balance as at the end of the period	492,157,945.30			492,157,945.30

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

XVI.

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XVI. Notes to major items in the financial statements of the parent company (Continued)

#### (II) Other receivables (Continued)

##### (6) Other receivables by nature

Nature	Book value at the end of the period	Book value as at the end of the previous year
Amounts due from related parties	481,560,443.31	518,639,069.62
Placements	624,970.91	4,671,223.40
Deposits and guarantees	9,184,300.00	859,992.00
Others	788,231.08	609,391.60
Total	492,157,945.30	524,779,676.34

##### (7) The top five debtors of other receivables as at the end of the period

Name of the units	Nature of other receivables	Balance as at the end of the period	Aging	As a Proportion in the total balance of other receivables as at the end of the period (%)	Provision for bad debts as at the end of the period
Zhejiang Kangning Hospital Management Co., Ltd.	Amounts due from related parties	247,382,738.03	0-5 years	50.26	
Cangnan Kangning Hospital Co., Ltd.	Amounts due from related parties	43,880,643.89	0-5 years	8.92	
Pingyang Kangning Hospital Co., Ltd.	Amounts due from related parties	37,096,953.76	0-3 years	7.54	
Hangzhou Yining Hospital Co., Ltd.	Amounts due from related parties	31,799,646.79	0-2 years	6.46	
Wenzhou Ouhai Yining Rehabilitation Hospital Co., Ltd.	Amounts due from related parties	25,984,847.50	Within 1 year	5.28	
Total		386,144,829.97		78.46	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XVI. Notes to major items in the financial statements of the parent company (Continued)

#### (III) Long-term equity investments

Items	Balance as at the end of the period			Balance as at the end of the previous year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in subsidiaries	613,070,215.90		613,070,215.90	435,418,499.51	10,847,608.48	424,570,891.03
Investments in associates	71,256,356.09		71,256,356.09	39,145,602.49		39,145,602.49
Total	684,326,571.99		684,326,571.99	474,564,102.00	10,847,608.48	463,716,493.52

##### 1. Investments in subsidiaries

Investees	Balance as at the end of the period			Balance as at the end of the previous year		
	the end of the previous year	Increase in the current period	Decrease in the current period	the end of the period	Provision for impairment for the current period	Impairment provision as at the end of the period
Shenzhen Yining Medical Investment Co., Ltd.	10,183,324.73	171,654.33		10,354,979.06		
Langfang Yining Hospital Management Co., Ltd.	10,847,608.48		10,847,608.48		-10,847,608.48	
Zhejiang Huangfeng Hospital Management Co., Ltd.	34,627,432.36			34,627,432.36		
Wenzhou Kangning Judicial Forensic Centre	500,000.00			500,000.00		
Zhejiang Kangning Hospital Management Co., Ltd.	201,793,010.13	1,551,021.73		203,344,031.86		
Cangnan Kangning Hospital Co., Ltd.	38,200,677.37	13,781,837.78		51,982,515.15		
Yueqing Kangning Hospital Co., Ltd.	1,439,759.38	392,352.75		1,832,112.13		
Yongjia Kangning Hospital Co., Ltd.	20,135,368.47	7,312,142.74		27,447,511.21		
Qingtian Kangning Hospital Co., Ltd.	32,325,684.08	300,395.07		32,626,079.15		
Linhai Kangning Hospital Co., Ltd.	1,865,634.51	245,220.47		2,110,854.98		
Wenzhou Cining Hospital Co., Ltd.	53,500,000.00			53,500,000.00		
Wenzhou Lucheng Yining Hospital Co., Ltd.	30,000,000.00			30,000,000.00		
Wenzhou Ouhai Yining Rehabilitation Hospital Co., Ltd.		10,000,000.00		10,000,000.00		
Pingyang Changgeng Yining Hospital Co., Ltd.		154,744,700.00		154,744,700.00		
Total	435,418,499.51	188,499,324.87	10,847,608.48	613,070,215.90	-10,847,608.48	

# Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

## XVI. Notes to major items in the financial statements of the parent company (Continued)

### (III) Long-term equity investments (Continued)

#### 2. Investment in associates

	Balance as at the end of the previous year	New investment	Decrease in investment	Changes in the current period						Balance as at the end of the period	Impairment provision as at the end of the period	
				Investment profits and losses recognized under equity method	Adjustments to other comprehensive income	Other changes in equity	Cash dividend or profit distribution declared	Provision for impairment	Others			
Investees												
Associates												
Hangzhou Anken Information Technology Co., Ltd.	16,645,602.49			-3,485,811.81		-3,434.59					13,156,356.09	
Wenzhou Longwan Yining Hospital Co., Ltd.	22,500,000.00	35,600,000.00									58,100,000.00	
Total	39,145,602.49	35,600,000.00		-3,485,811.81		-3,434.59					71,256,356.09	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XVI. Notes to major items in the financial statements of the parent company (Continued)

#### (IV) Revenue and cost of sales

##### 1. Revenue and cost of sales

Items	Amount for the period		Amount for the previous period	
	Revenue	Cost	Revenue	Cost
Main businesses	365,462,139.23	270,930,179.07	394,187,029.20	270,984,479.31
Other businesses	4,336,166.89	559,209.63	13,870,084.03	4,587,592.80
Total	369,798,306.12	271,489,388.70	408,057,113.23	275,572,072.11

A breakdown of revenue:

Items	Amount for the period	Amount for the previous period
Pharmaceutical sales	93,506,118.66	107,453,075.01
Treatments and general healthcare services	271,956,020.57	286,733,954.19
Total	365,462,139.23	394,187,029.20

##### 2. Description of performance obligations

The performance obligation of treatments and general healthcare services refers to the provision of diagnosis and healthcare services to outpatients, which is usually completed when diagnosis and healthcare services are provided after the patients have paid the fees.

#### (V) Investment income

Items	Amount for the period	Amount for the previous period
Income from long-term equity investments under the cost method	1,980,000.00	
Income from long-term equity investments under the equity method	-3,485,811.81	-7,579,758.79
Investment income from disposal of long-term equity investments		83,207.78
Investment income from financial assets held for trading during the holding period	6,429,189.35	
Investment income from disposal of financial assets held for trading		96,369.86
Total	4,923,377.54	-7,400,181.15

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XVII. Supplementary information

#### (I) Statement of non-recurring profit and loss for the period

Items	Amount	Description
Profit and loss on disposal of non-current assets	-90,776.86	
Tax rebates and relief with ultra vires approval or without formal approval		
Government subsidies as included in the profit and loss for the current period (except for government subsidies that are closely related to the business of the enterprise, and are entitled to on a fixed or quantitative basis according to the unified national standard)	13,486,446.80	
Funds occupation fees charged to non-financial enterprises included in the profit and loss for the current period		
Gains from the excess of the company's share of the fair value of the investees identifiable net assets at the time of acquisition over the cost of investment in the subsidiaries, associates and joint ventures of the company		
Profit and loss on exchange of non-monetary assets		
Profit and loss on entrusted assets invested or managed by custodian		
Provisions for impairment of various assets due to force majeure factors, such as natural disasters		
Profit and loss on debt restructuring		
Enterprise restructuring expenses, such as employee placement expenses, integration expenses, etc.		
Profit and loss exceeding the fair value portion arising from the transactions with prices obviously unfair		
Net profit and loss of a subsidiary that is acquired in a business combination involving enterprises under common control from the beginning of the period to the date of the combination		
Profit and loss arising from contingent events unrelated to the company's normal business operations		
Profit or loss on changes in fair value of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities, and investment income from disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investments, except for the effective hedging closely related to the company's normal operation	8,407,356.31	
Reversal of provision for impairment of receivables and contract assets that have been tested individually for impairment		
Profit and loss from external entrusted loans		
Profit and loss arising from changes in the fair value of investment properties that are subsequently measured under fair value model	1,010,034.42	
Effect of one-off adjustment to the profit and loss for the current period in accordance with the requirements of taxation, accounting and other laws and regulations		
Custody fee income from entrusted operations		
Other non-operating income and expenses apart from the aforesaid items	2,945,121.69	
Other profit and loss items that meet the definition of non-recurring profit and loss		
Subtotal	25,758,182.36	
Effect of income tax	-3,583,626.04	
Effect of minority interests (after tax)	117,019.52	
Total	22,291,575.84	

## Notes to the Financial Statements

For the year 2021

(All amounts in RMB Yuan unless otherwise stated)

### XVII. Supplementary information (Continued)

#### (II) Return on net assets and earnings per share

	Weighted average return on net assets (%)	Earnings per share (RMB)	
		Basic earnings per share	Diluted earnings per share
Profit for the reporting period			
Net profit attributable to ordinary shareholders of the company	3.88	0.61	0.59
Net profit attributable to ordinary shareholders of the company, net of non-recurring profit and loss	1.92	0.30	0.29

Wenzhou Kangning Hospital Co., Ltd.

(Stamped with official seal)

October 26, 2022

## Definitions

“AGM”	the annual general meeting of the Company for the year 2021 to be convened and held in due course
“Articles”	the articles of association of the Company, as amended, modified or supplemented from time to time
“Audit Committee”	the audit committee of the Board
“Beijing Yining Hospital”	Beijing Yining Hospital Co., Ltd. ( 北京英宁医院有限公司 ), a company established in the PRC with limited liability on August 17, 2015, one of the Company’s indirect non-wholly owned subsidiaries
“Board of Directors” or “Board”	the board of directors of the Company
“Cangnan Kangning Hospital”	Cangnan Kangning Hospital Co., Ltd. ( 苍南康宁医院有限公司 ), a company established in the PRC with limited liability on June 15, 2012, one of the Company’s wholly owned subsidiaries
“Cangnan Yining Nursing Center”	Cangnan Yining Nursing Center Co., Ltd. ( 苍南英宁护理中心有限公司 ), a company established in PRC with limited liability on March 9, 2021, one of the Company’s indirect wholly-owned subsidiaries
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
“Changchun Kanglin Psychological Hospital”	Changchun Kanglin Psychological Hospital Co., Ltd. ( 长春康林心理医院有限公司 ), a company established in the PRC with limited liability on February 16, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“Chun’an Kangning Hospital”	Chun’an Kangning Huangfeng Hospital Co., Ltd. ( 淳安康宁黄丰医院有限公司 ), a company established in the PRC with limited liability on April 16, 2020, one of the Company’s indirect non-wholly owned subsidiaries
“Company” or “Wenzhou Kangning Hospital”	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2120)
“Controlling Shareholders”	has the meaning ascribed to it under the Hong Kong Listing Rules and in this annual report, refers to Mr. GUAN Weili and Ms. WANG Lianyue

## Definitions

“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted Shares which are currently not listed or traded on any stock exchange
“Geriatric Hospital”	Wenzhou Yining Geriatric Hospital Co., Ltd. ( 温州益宁老年病医院有限公司 ), a company established in the PRC with limited liability on November 2, 2015, one of the wholly owned subsidiaries indirectly held by the Company, whose principal business is to provide medical services for the geriatric, including geriatric psychiatric and psychological treatment
“Group” or “we” or “our”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested ordinary Share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange
“Hangzhou Cining Hospital”	Hangzhou Cining Hospital Co., Ltd. ( 杭州陈宁医院有限公司 ), a company established in the PRC with limited liability on November 18, 2017, one of the Company’s indirect wholly owned subsidiaries
“Hangzhou Yining Hospital”	Hangzhou Yining Hospital Co., Ltd. ( 杭州益宁医院有限公司 ), a company established in the PRC with limited liability on August 25, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“Heze Yining Hospital”	Heze Yining Psychiatric Hospital Co., Ltd. ( 菏泽益宁精神病医院有限公司 ), a company established in the PRC with limited liability on April 6, 2017, one of the Company’s indirect non-wholly owned subsidiaries
“HK\$” or “HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

## Definitions

“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Jinpu Fund”	Chongqing Jinpu Medical & Health Service Industry Equity Investment Fund Partnership (Limited Liabilities Partnership) ( 重慶金普醫療健康服務產業權益投資基金合夥企業(有限責任合夥企業) ), a limited partnership established in the PRC on March 22, 2016 with the Company, as a limited partner, holding 3.5461% equity interests of Jinpu Fund
“Latest Practicable Date”	November 7, 2022, being the latest practicable date for inclusion of certain information in this annual report prior to its publication
“Linhai Cining Hospital”	Linhai Cining Hospital Co., Ltd. ( 臨海靜寧醫院有限公司 ), a company established in the PRC with limited liability on December 11, 2020, one of the Company’s indirect wholly owned subsidiaries
“Linhai Kangning Hospital”	Linhai Kangning Hospital Co., Ltd. ( 臨海康寧醫院有限公司 ), a company established in the PRC with limited liability on February 2, 2015, one of the Company’s non-wholly owned subsidiaries
“Luqiao Cining Hospital”	Taizhou Luqiao Cining Hospital Co., Ltd. ( 台州鹿橋靜寧醫院有限公司 ), previously known as Taizhou Luqiao Yining Hospital Co., Ltd. ( 台州鹿橋盈寧醫院有限公司 ), a company established in the PRC with limited liability on December 12, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“Macau”	the Macau Special Administrative Region of the PRC
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules

## Definitions

“Nanjing Yining Hospital ”	Nanjing Yining Hospital Co., Ltd. ( ǎ / Ę 1 < ě Ɔ " ® ! ), a company established in the PRC with limited liability on June 22, 2018, one of the Company’s indirect non-wholly owned subsidiaries
“Nomination Committee”	the nomination committee of the Board
“Non-competition Agreement”	the non-competition agreement dated May 11, 2015 entered into by the Company and the Controlling Shareholders
“Pingyang Changgeng Yining Hospital”	Pingyang Changgeng Yining Hospital Co., Ltd. ( ; ģ — 2 Ę 1 < ě Ɔ " ® ! ), a company established in the PRC with limited liability on January 14, 2021, one of the Company’s wholly owned subsidiaries
“Pingyang Kangning Hospital”	Pingyang Kangning Hospital Co., Ltd. ( ; ģ p 1 < ě Ɔ " ® ! ), a company established in the PRC with limited liability on November 2, 2015, one of the Company’s indirect wholly owned subsidiaries
“Pujiang Yining Hospital”	Pujiang Yining Huangfeng Hospital Co., Ltd. ( ê Ę 1 » \ < ě Ɔ " ® ! ), a company established in the PRC with limited liability on September 30, 2018, one of the Company’s indirect non-wholly owned subsidiaries
“PRC” or “China”	the People’s Republic of China which, for the purpose of this annual report, excludes Hong Kong, Macau and Taiwan
“PRC Company Law”	the Company Law of the People’s Republic of China ( • 6 [ O • q 7 ® ! , ), as amended and adopted by the Standing Committee of the Twelfth National People’s Congress of the PRC on December 28, 2013 and effective on March 1, 2014 (as amended, supplemented or otherwise modified from time to time)
“Prospectus”	the prospectus of the Company dated November 10, 2015
“Qingtian Kangning Hospital”	Qingtian Kangning Hospital Co., Ltd. ( ; ĵ ^ p 1 < ě Ɔ " ® ! ), a company established in the PRC with limited liability on April 1, 2011, one of the Company’s wholly owned subsidiaries

## Definitions

“Quzhou Yining Hospital”	Quzhou Yining Hospital Co., Ltd. ( 衢州市益宁医院有限公司 ), a company established in the PRC with limited liability on November 20, 2015, one of the Company’s indirect non-wholly owned subsidiaries
“The Reporting Period” or “Reporting Period”	the year ended December 31, 2021
“Remuneration Committee”	the remuneration committee of the Board
“RMB”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Yining Hospital”	Shenzhen Yining Hospital ( 深圳市益宁医院 ), previously known as Shenzhen Yining Hospital Co., Ltd. ( 深圳市益宁医院有限公司 ), a company established in the PRC with limited liability on September 22, 2014, one of the Company’s indirect non-wholly owned subsidiaries
“Strategy and Risk Management Committee”	the strategy and risk management committee of the Board
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
“substantial shareholder(s)”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“Supervisor(s)”	the members of the Supervisory Committee
“Supervisory Committee”	the Company’s Supervisory Committee established pursuant to the PRC Company Law

## Definitions

“Taizhou Kangning Hospital”	Taizhou Kangning Hospital Co., Ltd. (台州康宁医院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“Wenling Nanfang Hospital”	Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd. (温岭南方精神专科医院有限公司), a company established in the PRC with limited liability on June 20, 2018, one of the Company’s indirect non-wholly owned subsidiaries
“Wenzhou Cining Hospital”	Wenzhou Cining Hospital Co., Ltd. (温州陈宁医院有限公司), a company established in the PRC with limited liability on January 25, 2006, one of the Company’s wholly owned subsidiaries
“Wenzhou Guoda”	Wenzhou Guoda Investment Co., Ltd. (温州古达投资有限公司), a company established in the PRC with limited liability on February 9, 2002, was one of the Company’s indirect non-wholly owned subsidiaries. On June 24, 2021, the Company entered into the Equity Transfer Agreement with Mr. GUAN Weili, a connected person, to conditionally sell 75% equity interests in Wenzhou Guoda to Mr. GUAN Weili (for details, please refer to the announcement of the Company dated June 24, 2021)
“Wenzhou Ouhai Yining Elderly Hospital”	Wenzhou Ouhai Yining Elderly Hospital Co., Ltd. (温州瓯海益宁老年医院有限公司), a company established in China with limited liability on March 8, 2021, one of the non-wholly owned subsidiaries of the Company
“Yining Psychology Internet Hospital”	Yining Psychology Internet Hospital (Wenzhou) Co., Ltd. (益宁心理互联网医院(温州)有限公司), a company established in the PRC with limited liability on March 10, 2020, one of the Company’s indirect non-wholly owned subsidiaries
“Yongjia Kangning Hospital”	Yongjia Kangning Hospital Co., Ltd. (永嘉康宁医院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company’s wholly owned subsidiaries
“Yueqing Kangning Hospital”	Yueqing Kangning Hospital Co., Ltd. (乐清康宁医院有限公司), a company established in the PRC with limited liability on September 3, 2013, one of the Company’s wholly owned subsidiaries
“%”	percentage ratio

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