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

(¹)

Company incorporated in the People's Republic of China

At the request of the Independent Investigation Committee, the Investigation Firm commenced a supplementary independent investigation into the Alleged Areas (the “**Supplementary Independent Investigation**”) to collect relevant facts and supporting evidence to assist the Company in obtaining all the necessary information to assess the financial impact of the Alleged Areas and to address the audit qualifications raised by its current external auditor. On April 11, 2023, the Investigation Firm has completed the Supplementary Independent Investigation and submitted the final report of the Supplementary Independent Investigation (the “**Supplementary Report of the Independent Investigation**”) to the Independent Investigation Committee. On April 12, 2023, the Independent Investigation Committee has reviewed and accepted the Supplementary Report of the Independent Investigation. This announcement summarizes the key findings of the Supplementary Independent Investigation.

Summary of Key Findings of the Supplementary Report of the Independent Investigation

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

In the Supplementary Report of the Independent Investigation, the Investigation Firm summarizes the additional work performed in relation to Alleged Area I. The objectives of the additional work performed as set out below were to collect relevant facts that would assist the Company to assess the financial impact and appropriate accounting treatments of the 1443 donations, as well as to resolve the audit qualification raised by its external auditor:

1. The Investigation Firm interviewed two donors related to Alleged Area I who were previously unavailable for interview, to further verify the nature of the 1443 donations.
2. The Investigation Firm interviewed a representative of the fund in which one of the donors was an investor, to further understand the source of funds and the nature of the transfers (which formed part of the 1443 donations) from the indirect investor to the Company’s employees.

3. The Investigation Firm further interviewed Ms. WANG Hongyue, the Company's former

Although the fund flows of the donations appeared to be convoluted, the arrangements reflected a series of personal decisions made by Ms. WANG Hongyue, who orchestrated the 1443 donations on her own. The donors were not aware of the convoluted fund flows that followed their donations, and remitted the donations to the personnel designated by Ms. WANG Hongyue without further questioning the appropriateness of the arrangement because they were not familiar with how donations should be processed in general, and placed trust in Ms. WANG Hongyue that their donations would be used for charitable causes as intended. Therefore, this gives a basis for a view to be taken that the fund flows, albeit convoluted, did not diminish the fact that all donors had the intention to donate and help the impoverished patients at the hospitals.

Alleged Area II: Cash flows in the personal bank accounts of a certain employee from the Social Work Department

In the Supplementary Report of the Independent Investigation, the Investigation Firm summarizes the additional work performed in relation to Alleged Area II. The objectives of the additional work performed as set out below were to collect supporting evidence that would assist the Company in assessing the impact of the arrangements in Alleged Area II on the Company's financial statements and to resolve the audit qualification raised by its external auditor:

1. The Investigation Firm conducted an interview with an employee of the Company's Social Work Department (the "Employee") on February 28, 2023 to clarify whether she had worked with and shared profits on projects other than the ten related projects on which she worked with the actual controller of five of the Company's renovation suppliers (the "Actual Controller") where the Employee received large transfers totaling RMB12.1 million from these five renovation suppliers and other parties related to Actual Controller, as well as the amounts paid by the Company to the Actual Controller for these projects and the profits received by the Employee from these projects.
2. The Investigation Firm examined the project cost verifications conducted by independent third parties engaged by the Company for all of the Company's projects involving the Actual Controller, as well as the reconciliation performed by the Company's infrastructure department on these project cost assessment reports.

The key findings of the Supplementary Independent Investigation of the Investigation Firm for Alleged Area II are as follows:

1. In addition to the ten related projects, the Employee further confirmed that other projects/ payments totalling RMB2,190,701 made by the Company to the Actual Controller involved profit sharing arrangements between her and the Actual Controller. Based on this, the total amount paid by the Company to the Actual Controller in respect of all projects involving profit sharing arrangements confirmed by the Employee was RMB18,281,756.
2. As stated by the Employee, although she identified additional projects which involved a project sharing arrangement with the Actual Controller outside of the ten related projects, her total profit from all projects remained the same because her total profit was based on the total amount she received from the Actual Controller and his related parties less the amounts she paid to materials and labour service vendors as project costs (she did not receive any further split of profits from the Actual Controller separately). She stated that the actual profit to her should be lower than her calculation because she omitted project expenses that were settled by her in cash.
3. In light of the fact that the calculation of profit by the Employee involved significant judgment by her with regards to the outflows that constituted project costs, to further assess whether the Company suffered losses as a result of the profit sharing arrangement, the Company engaged independent third parties to perform cost verification on all projects involving the Actual Controller (except for those that were recorded as expenses and were no longer carried in the Company's balance sheet), which opined that all amounts paid by the Company in respect of these projects were of fair value, and aligned with market prices, which in turn forms a reasonable basis for a view to be taken that the profit sharing arrangement neither affected the amounts of any payments made by the Company nor resulted in the Company suffering any loss.

Alleged Area III: Cash flows in the personal bank accounts of a senior management personnel

In the Supplementary Report of the Independent Investigation, the Investigation Firm summarized the additional work that were performed in relation to Alleged Area III. The objectives of the additional work performed as set out below were to gather relevant facts that would assist the Company to obtain further clarity on whether the cash flows of Ms. WANG Hongyue were related to the Company's business and its impact on the Company's financial statements, so as to address the audit qualification raised by its external auditor:

1. The Investigation Firm conducted interviews with 14 individuals who have had significant fund flows with Ms. WANG Hongyue but were not available for interview during the Investigation, with a focus on ascertaining whether the funds were personal to Ms. WANG Hongyue in nature and hence unrelated to the Company's business. In addition to these 14 individuals, the Investigation Firm also interviewed a donor who was implicated in Alleged Area I regarding his involvement in Alleged Area III.
2. The Investigation Firm interviewed Ms. WANG Hongyue to further discuss the inconsistencies i H further d5wertherIeeeeee

3. For the reconstruction project which involved payments to the Renovation Supplier that coincided with some of his transfers to Ms. WANG Hongyue, the Investigation Firm examined the fair value assessment on the project costs by the independent third party engaged by the Company and the reconciliation performed by the Company's infrastructure department.
4. For the acquisitions of certain subsidiaries where Ms. WANG Hongyue made personal gains from a proxy shareholding arrangement, the Investigation Firm examined the fair value assessments performed by the independent third party engaged by the Company to ascertain whether the acquisitions were at fair value and thereby assess whether the fact that Ms. WANG Hongyue made personal profit from these transactions had any impact on the Company's financial statements.

The key findings of the Supplementary Independent Investigation for the Alleged Area III are as follows:

1. Loan arrangements between Ms. WANG Hongyue and various individuals

Loan arrangements with the Individuals of Interest

Based on the Investigation Firm's interviews with the Individuals of Interest and Ms. WANG Hongyue, the outstanding principal balance of loans between Ms. WANG Hongyue and the Individuals of Interest as of February 28, 2022 was RMB15,816,447. The Individuals of Interest confirmed during the interviews with them that they advanced personal loans to Ms. WANG Hongyue that were not related to the Company.

Loan arrangements with other individuals of potential interest

- (i) Interviewees corroborated with Ms. WANG Hongyue's representation that the fund flows were personal loans and not related to the Company.
- (ii) According to these interviewees, there was no indication that the loans were used for Company purposes. The interviewees also signed confirmations to the Company confirming that the money they lent to Ms. WANG Hongyue were their own funds, that they voluntarily entered into loan arrangements with her, and that the loan arrangements were not related to the Company and its affiliates.
- (iii) The loan arrangements between these individuals and Ms. WANG Hongyue were informal and did not correspond to any signed loan agreements. Although Ms. WANG Hongyue and these individuals agreed on the applicable interest rates for her loans, there might have been time lag in her interest payments, or variations in the amount

- (v) Ms. WANG Hongyue acknowledged having misrepresented to the Investigation Firm that her fund flows with a former Company employee were loans and repayments. Instead, the former Company employee acted as conduit for Ms. WANG Hongyue to invest in a hospital (which is and was not a Company subsidiary) on her personal behalf.
- (vi) Ms. WANG Hongyue acknowledged that the loan breakdowns that she previously provided to the Investigation Firm contained factual inaccuracies, including unintentional manual errors and intentional misrepresentations.

2. Purpose of the loans

During the Investigation Firm's interview with Ms. WANG Hongyue, regarding the purpose of the loans, in addition to those that she disclosed previously (which included her repurchase of shares under the employee incentive scheme, an asset acquisition relating to the Company which was planned but eventually unfulfilled, personal expenses of various nature), she added that she used the loans she obtained from various individuals to lend to the landlord of the property rented by a Company subsidiary. According to Ms. WANG Hongyue, the loan that she advanced to the landlord related to land costs incurred for the Company subsidiary. The land costs should have been absorbed by the landlord, but the landlord was involved in a series of litigations which froze its assets and had to borrow money from Ms. WANG Hongyue to settle the land costs. Ms. WANG Hongyue stated that she anticipated she would be able to use the gains from her shares in the Company, activities relating to the employee incentive shares and the appreciation of the value of her personal properties to support her loan repayments and interest payments.

3. Fair value assessment regarding the renovation costs paid to the Renovation Supplier

To assess whether the Company overpaid the Renovation Supplier for the renovation project given the significant cost increase and the personal dealings between the Renovation Supplier and Ms. WANG Hongyue, the Company engaged an independent third party to perform a cost valuation of the renovation project, which opined that the project was fairly priced and consistent with market practices. Further, the Company's infrastructure department further reconciled the breakdown of the fair value assessment to the amount that was paid to the Renovation Supplier for the project, pursuant to which it was determined that the total price paid by the Company to the Renovation Supplier for various works was lower than the estimated market price for such work. This forms a reasonable basis for a view to be taken that the payments from the Company to the Renovation Supplier for the renovation project were aligned with market prices, despite the significant cost increase and the personal dealings between the Renovation Supplier and Ms. WANG Hongyue.

4. Fair value assessments on the acquisitions of certain subsidiaries

The fair value assessments performed by the independent third party engaged by the Company, which confirmed the consideration paid by the Company to acquire certain subsidiaries from their former shareholders was at fair value, form a reasonable basis for a view to be taken that the mere fact that Ms. WANG Hongyue made personal gains from these transactions did not impact the price paid by the Company for the subsidiaries.

Major Limitations on the Review Scope of the Supplementary Report of the Independent Investigation

In the Supplementary Report of the Independent Investigation, the Investigation Firm identified the following major limitations encountered in the Supplementary Independent Investigation:

- (i) One of the individuals who allegedly advanced loans to Ms. WANG Hongyue, the Company's former Chief Financial Officer, was unavailable for interview.
- (ii) With respect to the borrowing arrangements between Ms. WANG Hongyue and various individuals, the Investigation Firm's findings were based on its review of Ms. WANG Hongyue's bank statements, interviews with Ms. WANG Hongyue and the individuals who advanced loans to her (all of them confirmed the borrowing arrangements and the flow of funds as determined from Ms. WANG Hongyue's bank statements and their own records). The Investigation Firm did not have access to these individuals' bank statements for further analysis.

Opinions of the Independent Investigation Committee and the Board on the Supplementary Report of the Independent Investigation

The Independent Investigation Committee has completed the review of the contents of the Supplementary Report of the Independent Investigation, and is of the view that the Supplementary Report of the Independent Investigation has been thoroughly conducted by professionals and has been completed to the extent presently and reasonably possible, and that the Investigation Firm has taken appropriate and necessary further actions to fully investigate the issues involved in the Alleged Areas, and the factual conclusions to the Supplementary Independent Investigation are reasonable and acceptable. The Independent Investigation Committee also fully understands that the Supplementary Report of the Independent Investigation may be subject to the limitations and difficulties set out in the section headed "Major Limitations on the Review Scope of the Supplementary Report of the Independent Investigation" above in this announcement. The Independent Investigation Committee has submitted the Supplementary Report of the Independent Investigation together with its opinion to the Board for consideration. The Board approved the contents of the Supplementary Report of the Independent Investigation and the opinions of the Independent Investigation Committee. The Board is of the view that the issues further identified in the Supplementary Report of the Independent Investigation do not have any material adverse impact on the Company's financial position or business operation.

KEY FINDINGS OF INTERNAL CONTROL REVIEW

Background

As announced by the Company on June 15, 2022, the Resumption Guidance includes a condition requiring the Company to, among others, conduct an independent internal control review (the "Internal Control Review") and demonstrate that the Company has in place adequate internal controls and procedures to meet its obligations under the Listing Rules.

In order to fulfill the said condition stated in the Resumption Guidance and address the internal control issues identified during the Independent Investigation, the Company has engaged an independent professional adviser (the “**Internal Control Adviser**”) to holistically review the internal controls and procedures of the Company, make suggestions for improvement, and conduct a follow-up review on the Company’s implementation of its enhanced internal control measures. On April 11, 2023, the Company received the final version of an internal control review report (the “**Internal Control Review Report**”) dated April 11, 2023 issued by the Internal Control Adviser. A summary of the key findings of the Internal Control Review, the corresponding suggestions made by the Internal Control Adviser and the remedial actions taken by the Group are set out in this announcement.

Purpose, Scope and Approach of Internal Control Review

The purpose of the Internal Control Review is to evaluate the relevant procedures, systems and controls (including accounting and management systems) established by the management, identify any deficiencies and make appropriate suggestions for improvement. The purpose of the follow-up review is to independently assess the rectifications made based on the findings of the Internal Control Review and provide the Company with further suggestions in relation to any outstanding rectifications.

The Internal Control Adviser has reviewed the internal control system and procedures of the Company and ten of its subsidiaries. The major aspects reviewed are as follows:

1. Entity-Level Review by COSO Framework;
2. Activity-level review:
 - (i) Financial reporting process;
 - (ii) Revenue and accounts receivable management;
 - (iii) Procurement and accounts payable management;
 - (iv) Inventory management;
 - (v) Fixed asset management;
 - (vi) Bank and cash management;
 - (vii) Human resources and payroll process;
 - (viii) Taxation;
3. Information technology general control; and
4. Review of compliance procedures of certain Listing Rules and regulations.

The process of conducting the Internal Control Review is as follows:

1. **Planning:** performing an introductory review to understand the background relating to the internal control systems of the Group and to obtain the related background materials and documentation (where necessary and available), negotiate with the Company on a detailed plan and schedule for the comprehensive review, and make the necessary administrative arrangements for the review to be conducted.
2. **Conducting Internal Control Review:** performing walkthrough tests and tests which assess the effectiveness of the Group's internal controls and identify deficiencies based on the design of the internal controls and make suggestions for improvement.
3. **Reporting:** drafting Internal Control Review Report and discussing with the relevant personnel for further clarifications and confirmation of the findings.
4. **Conducting follow-up review:** assessing whether the rectifications for deficiencies in internal controls identified during the Internal Control Review have been effectively implemented, and drawing up conclusions for the review.

Major Internal Control Issues and Rectifications

To demonstrate the Company's efforts of improving the internal control system and rectifying the internal control issues identified during the Internal Control Review, the Company hereby lists some of the key internal control issues identified. Further, as part of the Internal Control Review, the Internal Control Adviser has reviewed such rectifications, a summary of the key rectifications made is as follows:

Key Internal Control Issues	Rectifications
Entity-Level Review by COSO Framework	
<p data-bbox="124 236 783 308">Control Environment – Conflict of Interest Reporting Mechanism</p> <p data-bbox="124 348 783 795">Although the Employee Handbook set out clear prohibitions against the receipt of kickbacks, agency fees and any other payments and favors similar in nature from external parties, the Group did not have in place a reporting mechanism for conflict of interest, including the requirement for employees to declare any potential conflict of interests. As a result, potential conflicts might not be detected, investigated and followed-up in a timely manner, which might affect the overall interests of the Group.</p>	<p data-bbox="809 236 1469 683">The Group has enhanced its Conflict of Interest Declaration System by clearly defining situations which may amount to conflict of interests, and introducing a time limit and procedures for seeking consultation and reporting the conflict of interest. In particular, directors and other members of senior management are required to fill out the Conflict of Interest Declaration Form to declare their interests in December every year, and report to management any conflict of interest as soon as it arises so that it is handled timely.</p> <p data-bbox="809 723 1469 1357">In addition, according to the enhanced Conflict of Interest Declaration System, if deliberate concealment of conflict of interests is discovered, and the interests of the Group is affected as a consequence, the relevant employee and his or her supervisor would have to bear corresponding responsibilities. The incident will be reviewed, verified and assessed by a special committee or the Audit and Supervision Department before the course of action is decided. If the deliberate concealment of conflict of interests is verified, it would be dealt with accordingly depending on the severity of the case, and if it is serious, it would be reported to the department in charge for it to pursue administrative or legal actions against the employee.</p>

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

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

Key Internal Control Issues	Rectifications
Activity-level review	
	<ul style="list-style-type: none"> <li data-bbox="810 236 1471 832">• The assessment team established by the Group for the evaluation of donation proposals is comprised of members from the General Manager's office, the Finance and Asset Management Department, the Audit and Supervision Department, and the department which received the donation proposal. A third-party agency will also be engaged to participate in the evaluation if necessary. The team would perform a comprehensive evaluation of the donation proposal, including the donor's background, its operating and relationship with the hospital (if any), before issuing an opinion on whether to accept the donation or not. <li data-bbox="810 874 1471 1123">• If the Group decides to accept the donation and that the relevant donation has been approved by the management, it is required to enter into a written agreement with the donor on a voluntary and equal basis, which should be affixed with the seal of the Group.

Views of the Internal Control Adviser

The Internal Control Adviser conducted follow-up reviews in October 2022 and from February to March 2023. After the follow-up reviews, the Internal Control Adviser became aware that the Group has fully addressed the deficiencies identified during their first review and implemented remedial measures accordingly, and that nothing has come to its attention that such remedial measures have not been properly implemented or that the current internal control system of the Group is not effective.

Views of the Audit Committee and the Board

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

The Board concurs with the view of the Audit Committee after making appropriate enquiries, including considering the results of the Internal Control Review and reviewing the report issued by the Internal Control Adviser. The Board considers that the Company has established appropriate internal control systems and procedures to fulfill its obligations under the Listing Rules and protect the interests of the Company and its shareholders as a whole.

CONTINUED SUSPENSION OF TRADING

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

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

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

Zhejiang, the PRC
April 14, 2023

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