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溫州康寧醫院
Wenzhou Kangning Hosp

(^ y company incorporated in ina)
Stock code: 2120

**INTERIM RESULTS ANNOUNCEMENT FOR
THE SIX MONTHS ENDED JUNE 30, 2022**

1 INTRODUCTION

- 1.1 The Board is pleased to announce the Group's unaudited interim results for the Reporting Period, together with comparative figures for the six months ended June 30, 2021.
- 1.2 The financial report (the “**Financial Report**”) of the Group for the Reporting Period is prepared in accordance with China Accounting Standards for Business Enterprises.
- 1.3 During the Reporting Period, the Group had certain matters that required retrospective correction because of previous period accounting errors. The financial data as of June 30, 2021 has been restated accordingly. For details, please refer to the section headed “SIGNIFICANT EVENTS - Correction of accounting errors in previous periods” in this announcement.

2 FINANCIAL HIGHLIGHTS

2.1 Principal Financial Data and Indicators

	For the six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i> (Restated)
Revenue	738,305	607,737
Profit before income tax	63,331	53,745
Income tax expenses	19,110	17,506
Net profit	44,221	36,238
Net profit attributable to shareholders of the Company	38,788	35,003
Profit or loss attributable to non-controlling interests	5,433	1,235
	As at	As at
	June 30,	December 31,
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Total assets	2,693,723	2,377,968
Total liabilities	1,339,418	1,106,880
Total equity	1,354,305	1,271,088
Equity attributable to shareholders of the Company	1,249,795	1,199,073
Non-controlling interests	104,510	72,015

3 BUSINESS REVIEW AND OUTLOOK

In the first half of 2022, the complicated situation caused by the profound changes unseen in a century and the recurrent COVID-19 pandemic (the “**Pandemic**”) has led to a steep increase in uncertainties in global social and economic development. Faced with multiple pressures such as the continuing economic downturn and the accelerated reform of diversified and combined medical insurance payment methods, the Group, under the guidance of macro policies, adheres to Kangning’s 100-year development strategy and further enhances medical quality and service standards by continuously strengthening and improving the internal management system, the overall business has maintained a good development momentum, with the following progress:

In the first half of 2022, the development of the Group’s owned hospitals business demonstrated strong resilience. During the Reporting Period, the Group’s well-established and owned hospitals such as Wenzhou Kangning Hospital, Cangnan Kangning Hospital, Qingtian Kangning Hospital, Yongjia Kangning Hospital and Yueqing Kangning Hospital maintained steady growth. In particular, Cangnan Kangning Hospital, Qingtian Kangning Hospital and Yongjia Kangning Hospital further boost the development and growth potential after relocation; the overall business development of existing new hospitals, which is in the climbing stage, grew steadily, of which Huainan Kangning Hospital, Nanjing Yining Hospital, Chun’an Kangning Hospital, Hangzhou Cining Hospital and Wenzhou Cining Hospital saw a significant increase in business scale compared with the same period last year. The four hospitals with regional operation and management in Taizhou continued to have satisfactory performance. Only the development of Shenzhen Yining Hospital, Heze Yining Hospital and Guanxian Yining Hospital has been slowed down under the influence of the Pandemic and other factors. Meanwhile, the performance of Beijing Yining Hospital and Hangzhou Yining Hospital have gradually improved during the Reporting Period by adjusting their operation and management models.

With the further implementation of the development strategy of “Healthy China” and the deepening of an aging society, big health industry has started a new round of rapid growth. In the first half of 2022, the Group will further expand the layout of the mental health and elderly medical industries. During the Reporting Period, the Group invested and acquired the controlling interest in Jinyun Shuning Hospital (a psychiatric hospital), and wholly acquired Yueqing Yining Hospital to provide medical and aged care for the elderly. In

4.1.1 Revenue and Cost of Revenue

The Group generates revenue mainly through the following three ways: (i) revenue from operating its owned hospitals; (ii) revenue of other healthcare related businesses; 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 six months ended June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
		(Restated)
Revenue from operating owned hospitals	683,079	561,345
Revenue from other healthcare related businesses	51,809	27,023
Other revenue not related to healthcare business	3,417	19,369
Total revenue	<u>738,305</u>	<u>607,737</u>

Revenue and cost of revenue from operating its owned hospitals

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

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

	For the six months ended June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
		(Restated)
Billing Revenue from owned hospitals	689,629	577,993
Less: medical insurance settlement differences	2,440	1,574
loss of income from special medical services ⁽¹⁾	4,110	15,074
Revenue from operating owned hospitals – net	683,079	561,345

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, below minimum living security 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

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

	For the six months ended June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
		(Restated)
Treatment and general healthcare services		
Revenue	542,043	449,713
Cost of revenue	365,916	295,515
Gross profit	176,127	154,198
Pharmaceutical sales		
Revenue	147,586	128,280
Cost of revenue	136,141	122,123
Gross profit	11,445	6,157
Owned hospitals		
Revenue	689,629	577,993
Cost of revenue	502,057	417,638
Gross profit	187,572	160,355

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB689.6 million, representing an increase of RMB111.6 million as compared with that of the same period of 2021, mainly due to the increase in the revenue of Yongjia Kangning Hospital, Qingtian Kangning Hospital, Yueqing Kangning Hospital, Wenzhou Cining Hospital, Taizhou Kangning Hospital and Nanjing Yining Hospital and the mergers and acquisitions of Pingyang Changgeng Yining Hospital, Yueqing Yining Hospital and Jinyun Shuning Hospital, as compared with that of the same period of last year. During the Reporting Period, the gross profit of the Group's owned hospitals increased by 17.0% as compared with that of 2021, mainly due to the increase in inpatient bed-days and average inpatient spending per bed-day.

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

	For the six months ended	
	June 30,	
	2022	2021
	(Unaudited)	(Unaudited)
		(Restated)
Inpatients		
Inpatient bed as at period end	9,558	8,328
Effective inpatient service bed-day capacity	1,729,998	1,507,368
Utilization rate (%)	87.0	87.3
Number of inpatient bed-days	1,505,499	1,315,493
Treatment and general healthcare services revenue attributable to inpatients (RMB'000)	513,773	427,770
Average inpatient spending per bed-day on treatment and general healthcare services (RMB)	341	325
Pharmaceutical sales revenue attributable to inpatients (RMB'000)	74,837	72,211
Average inpatient spending per bed-day on pharmaceutical sales (RMB)	50	55
Total inpatient revenue (RMB'000)	588,610	499,981
Total average inpatient spending per bed-day (RMB)	391	380
Outpatients		
Number of outpatient visits	225,032	177,881
Treatment and general healthcare services revenue attributable to outpatients (RMB'000)	28,271	21,943
Average outpatient spending per visit on treatment and general healthcare services (RMB)	126	123
Pharmaceutical sales revenue attributable to outpatients (RMB'000)	72,748	56,069
Average outpatient spending per visit on pharmaceutical sales (RMB)	323	315
Total outpatient revenue (RMB'000)	101,019	78,012
Total average outpatient spending per visit (RMB)	449	438
Total treatment and general healthcare services revenue (RMB'000)	542,044	449,713
Total pharmaceutical sales revenue (RMB'000)	147,585	128,280

During the Reporting Period, inpatient Billing Revenue amounted to RMB588.6 million, representing an increase of 17.7% as compared with that of the same period of 2021, primarily due to: (i) the number of the Group's inpatient bed-days increased by 14.4%, which was driven by the increase in the inpatient bed-days of Yongjia Kangning Hospital, Qingtian Kangning Hospital, Wenzhou Cining Hospital, Taizhou Kangning Hospital, Luqiao Cining Hospital, Pingyang Changgeng Yining Hospital, Yueqing Yining Hospital and Jinyun Shuning Hospital; and (ii) the average inpatient spending per bed-day of the Group's owned hospitals increased by 4.9%. The proportion of inpatient Billing Revenue to Billing Revenue from owned hospitals was 85.4% (for the six months ended June 30, 2021: 86.5%).

During the Reporting Period, outpatient Billing Revenue amounted to RMB101.0 million, representing an increase of 29.5% as compared with that of the same period of 2021, primarily due to the increase of outpatient visits by 26.5% and the increase in average outpatient spending per visit by 2.3%. The proportion of outpatient Billing Revenue to Billing Revenue from owned hospitals was 14.6% (for the six months ended June 30, 2021: 13.5%).

During the Reporting Period, due to the increase of both inpatient and outpatient business of our owned hospitals, Billing Revenue from treatment and general healthcare services increased by 23.7% as compared with that of the same period of 2021, and increased to 78.6% of Billing Revenue from owned hospitals (for the six months ended June 30, 2021: 77.8%); Billing Revenue from pharmaceutical sales increased by 15.0% as compared with that of the same period of 2021, accounting for 21.4% of Billing Revenue from owned hospitals (for the six months ended June 30, 2021: 22.3%), of which: the ratio of inpatient pharmaceutical sales to total inpatient Billing Revenue increased to 21.7% (for the six months ended June 30, 2021: 14.4%), the ratio of outpatient pharmaceutical sales to total outpatient Billing Revenue slightly increased to 72.0% (for the six months ended June 30, 2021: 71.9%).

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

	For the six months ended	
	June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
		(Restated)
Pharmaceuticals and consumables used	173,660	149,254
Employee benefits and expenses	179,347	146,561
Depreciation of right-of-use assets	19,839	18,892
Depreciation and amortization	50,657	39,899
Canteen expenses	28,668	24,513
Testing fees	11,798	13,396
Others	38,088	25,124
Cost of revenue of owned hospitals	502,057	417,639

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB502.1 million, representing an increase of 20.2% as compared with that of the same period of 2021. It was mainly due to: (i) the increase of 16.4% in pharmaceuticals and consumables expenses relating to the increase of pharmaceutical sales revenue; (ii) the increase of 22.4% in employee benefits and expenses arising from the increase in beds in the operation of our owned hospitals; (iii) depreciation of right-of-use assets increased by 5.0% as compared with that of the same period of 2021; and (iv) the depreciation and amortization increased by 27.0% as compared with that of

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group on operating income basis amounted to RMB197.8 million, representing an increase of 28.8% as compared with that of the same period of 2021. The gross profit of our owned hospitals businesses amounted to RMB181.0 million, representing an increase of 26.0% as compared with that of the same period of 2021. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

	For the six months ended June 30,	
	2022	2021
	(Unaudited)	(Unaudited)
		(Restated)
Treatment and general healthcare services	31.7%	31.8%
Pharmaceutical sales	7.8%	4.8%
Owned hospitals businesses	26.5%	25.6%
Property and other businesses	30.3%	21.3%
Consolidated gross profit margin	26.8%	25.3%

During the Reporting Period, consolidated gross profit margin of the Group increased to 26.8% (for the six months ended June 30, 2021 (restated): 25.3%), of which the gross profit margin of treatment and general healthcare services slightly decreased by 0.1 percentage points as compared with that of the same period of 2021. The gross profit margin of pharmaceutical sales increased by 3.0 percentage points as compared with that of the same period of 2021.

4.1.3 Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB2.0 million (for the six months ended June 30, 2021: RMB2.2 million).

4.1.4 Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB6.1 million (for the six months ended June 30, 2021: RMB4.9 million). The selling expenses accounted for 0.9% of the Group's revenue from operating its owned hospitals (for the six months ended June 30, 2021: 0.9%).

4.1.5 Administrative Expenses

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

	For the six months ended June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
		(Restated)
Employee benefits and expenses	52,917	42,156
Depreciation and amortization	11,246	8,632
Consultancy expenses	12,309	5,971
Travelling expenses	1,724	1,226
Others	16,698	18,076
Total administrative expenses	94,894	76,061

During the Reporting Period, the administrative expenses of the Group amounted to RMB94.9 million, representing an increase of 24.8% as compared with that of the same period of 2021. During the Reporting Period, the proportion of the administrative expenses to the revenue from operating owned hospitals of the Group was 13.9% (for the six months ended June 30, 2021 (restated): 13.5%).

4.1.6 Research and Development Expenses

During the Reporting Period, the Group's research and development expenses amounted to RMB15.1 million (for the six months ended June 30, 2021: RMB11.8 million),

4.1.7 Finance Expenses – Net

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

	For the six months ended June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
		(Restated)
Interest income	-1,699	-1,684
Foreign exchange losses	-44	23
Borrowing interest expenses	15,561	11,674
Interest expense on lease liabilities	7,239	6,677
Others	591	548
Finance expenses – Net	21,648	17,238

During the Reporting Period, the net finance expenses of the Group amounted to RMB21.6 million, representing an increase of RMB4.4 million as compared with that of the same period of 2021, mainly due to the increase in bank loans of the Group, resulting in the increase in borrowing interest expense of RMB3.9 million as compared with that of the same period of 2021.

4.1.8 Investment Income/(Losses)

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

	For the six months ended June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)

During the Reporting Period, our investment loss amounted to RMB0.3 million. Among the said amount, there was attributable investment loss of RMB1.7 million accrued under the equity method which primarily included the investment loss from the investment in Hangzhou Anken Medical Technology Co., Ltd..

4.1.9 Credit Impairment Losses

During the Reporting Period, credit impairment increased to RMB2.7 million (for the six months ended June 30, 2021 (restated): RMB2.3 million).

4.1.10 Gains Arising from Disposal of Assets

During the Reporting Period, gains arising from disposal of assets amounted to RMB0.4 million (for the six months ended June 30, 2021: nil) which was due to disposal gains arising from termination of lease of Quzhou Yining Hospital.

4.1.11 Non-Operating Income and Non-Operating Expenses

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

	For the six months ended	
	June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
		(Restated)
Government grants	1,167	297
Donations received	4,018	4,235
Other non-operating income	167	308
Non-operating income	5,352	4,840
Losses on scrapping of non-current assets	239	71
Donation expenses	1,419	473
Expenses for medical disputes	1,237	1,209
Other non-operating expenses	478	459
Non-operating expenses	3,373	2,212

During the Reporting Period, the non-operating income of the Group amounted to RMB5.4 million, representing an increase of RMB0.5 million as compared with that of the same period last year, mainly due to the increase in government grants of RMB0.9 million compared with that of last year. During the Reporting Period, the non-operating expenses of the Group increased to RMB3.4 million, mainly due to the increase in donation expenses of RMB0.9 million as compared with that of the same period of 2021.

4.1.12 Income Tax Expense

During the Reporting Period, income tax expense increased to RMB19.1 million (for the six months ended June 30, 2021 (restated): RMB17.5 million), representing an increase of 9.2% as compared with that of the same period of 2021. During the Reporting Period and for the six months ended June 30, 2021, our actual tax rate was 29.9% and 32.1% (restated), respectively.

4.2 Financial Position

4.2.1 Inventory

As of June 30, 2022, inventory balances amounted to RMB55.3 million (as of December 31, 2021: RMB56.5 million), mainly including the medical inventory and turnover materials.

4.2.2 Accounts Receivables

As of June 30, 2022, the balance of accounts receivables amounted to RMB422.1 million (as of December 31, 2021: RMB311.8 million), representing an increase of 35.4% as compared with that of December 31, 2021, mainly due to the increase in operational income of the Group's owned hospital.

During the Reporting Period, the accounts receivables turnover days of the Group were 90 days (for the six months ended June 30, 2021 (restated): 76 days).

4.2.3 Other Receivables and Prepayments

As of June 30, 2022, other receivables and prepayments decreased to RMB35.3 million (as of December 31, 2021: RMB41.8 million).

4.2.4 Other Non-current Financial Assets

As of June 30, 2022, the balance of other non-current financial assets was RMB65.8 million (as of December 31, 2021: RMB65.8 million).

4.2.5 Right-of-use Assets

As of June 30, 2022, right-of-use assets decreased to RMB246.8 million (as of December 31, 2021: RMB257.4 million), mainly due to the decrease in right-of-use assets of RMB10.6 million as a result of provision for depreciation of right-of-use assets normally made by the Group during the Reporting Period.

4.2.6 Accounts Payables

As of June 30, 2022, accounts payables decreased to RMB52.2 million (as of December 31, 2021: RMB69.2 million).

4.2.7 Receipts in Advance and Contract Liabilities

As of June 30, 2022, receipts in advance and contract liabilities increased to RMB46.9 million (as of December 31, 2021: RMB16.3 million).

4.2.8 Other Payables

As of June 30, 2022, other payables increased to RMB75.4 million (as of December 31, 2021: RMB66.5 million), mainly due to the increase in other payables for Yueqing Yining Hospital of RMB6.6 million and for Quzhou Yining Hospital of RMB5.2 million.

4.3 Liquidity and Capital Resources

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

	For the six months ended	
	June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	55,974	37,316
Net cash used in investing activities	(164,454)	(60,918)
Net cash generated from financing activities	194,881	93,139
Net increase in cash and cash equivalents	86,446	69,515

4.3.1 Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB56.0 million, primarily consisting of net profit of RMB38.8 million, adjustments of RMB2.7 million for credit impairment losses and asset impairment losses and adjustments of RMB86.4 million for depreciation and amortisation of various assets. Changes in working capital resulted in cash outflow of RMB102.8 million.

4.3.2 Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities amounted to RMB164.5 million, primarily due to the amount of RMB121.1 million for purchasing property, plant and equipment, primarily including, infrastructure investment of Lucheng Yining Hospital, Ou Hai Yining Hospital, Jinyun Shuning Hospital, Quzhou Yining Hospital and decoration of Pingyang Changgeng Yining Hospital and Nanjing Yining Hospital.

4.3.3 Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities amounted to RMB194.9 million.

4.3.4 Significant Investment, Acquisition and Disposal

The Group had no significant investment, acquisition or disposal for the six months ended June 30, 2022.

4.4 Indebtedness

4.4.1 Bank Borrowings

As of June 30, 2022, the balance of bank borrowings of the Group amounted to RMB783.4 million (as of December 31, 2021: RMB553.2 million), primarily attributable to repayment of borrowings of RMB80.0 million and an increase in borrowings of RMB317.5 million during the Reporting Period.

4.4.2 Contingent Liability

As of June 30, 2022, the Group had no contingent liability or guarantees that would have a material impact on the financial position or operation of the Group.

4.4.3 Asset Pledge

The Group's Wenzhou Kangning Hospital pledged property ownership certificates, namely Wenfang Quanzheng Lucheng District No. 826704u

4.4.8 Employees and Remuneration Policy

As of June 30, 2022, the Group had a total of 4,245 employees (as of December 31, 2021: 3,661 employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB245.3 million (for the six months ended June 30, 2021: RMB198.1 million). The average employees' remuneration is RMB115.6 thousand per year (including social 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.

4.4.9 Equity Incentive Scheme

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. (《溫州康寧醫院股份有限公司 2018 年股權激勵計劃》, the “**Equity Incentive Scheme**”), which was considered and approved and adopted at the annual general meeting of the Company for the year 2017 which has been convened on June 13, 2018. In order to meet the requirements regarding capital certainty when the Company applies for the listing of its A Shares in the future, on June 24, 2021, the proposal on further amendments to the Equity Incentive Scheme was considered and passed (among others) in the meeting of the Board, and it was resolved to cancel the performance assessment requirements and the Company's obligation to repurchase the unlocked incentive shares under the Equity Incentive Scheme. 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, the supplementary circular of the Company dated May 30, 2018, the circular of the Company dated May 14, 2021, the announcement of the Company dated June 18, 2021 and the announcement of the Company dated June 25, 2021.

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 announcement, a total of 8 participants exited, corresponding to a total of 79,274 incentive shares. As of the date of this announcement, the participants of the actual grant under the Equity Incentive Scheme comprised 193 persons, and 2,460,000 incentive shares have been granted in total. The incentive shares granted accounted for 3.2976% of the total issued share capital of the Company as of the date of this announcement. The incentive shares were unlocked at one time after 48 months from the date of the grant, and the grant price was RMB10.47/share.

The details of the Equity Incentive Scheme are as follows:

(1) Purposes

The Equity Incentive Scheme has been formulated to further refine the corporate governance structure of the Company, establish and optimise the Company's long-term incentive and restraint mechanism, attract and motivate professional management talents and core personnel, fully mobilize their enthusiasm and creativity, effectively enhance core team cohesion and core corporate competitiveness, better mobilize the enthusiasm of employees of the Group, and effectively integrate Shareholders' interests, the Company's interests and interests of the core team members so that the parties will make joint efforts for the Company's long-term development and ensure the realization of the Company's development strategy and operation objectives. The Equity Incentive Scheme has been developed on the precondition of fully safeguarding Shareholders' interests pursuant to the principle of benefits being in proportion to contributions and in accordance with provisions of the relevant laws, administrative regulations and regulatory documents including the Company Law and the Articles of Association.

(2) Scope of the Participants

(a) Scope of the Participants

All Participants shall be employed in the Group and have signed labor contracts or employment contracts with the Group during the appraisal period of the Equity Incentive Scheme.

Participants shall include the Directors, Supervisors, senior management of the Group (including the general manager), core technical (business) personnel, and other persons who, in the opinion of the Board, shall be incentivized, and the Board shall determine the Participants and the amount of equity to be granted within 36 months upon consideration and approval of the Equity Incentive Scheme at a general meeting.

- (b) List of the Participants under the Equity Incentive Scheme

The specific list and subscribed capital contribution of the Participants shall be selected and assessed by the Board.

(3) *Description of equity to be granted under the Equity Incentive Scheme*

- (a) Form of equity to be granted under the Equity Incentive Scheme

The Company will set up the employees' shareholding platform through the formation of a limited partnership, and the employees' shareholding platform will hold the Incentive Shares for and on behalf of the Participants. When Incentive Shares are granted to the Participants, the Participants shall subscribe for corresponding interests in the limited partnership and contribute capital at the Grant Price, and indirectly become a Shareholder of the Company. The Participants are prohibited from transferring, pledging or otherwise disposing their respective Incentive Shares during the lock-up period. Incentive Shares to be granted to the Participants are entitled to the corresponding rights upon registration, including but not limited to dividend distribution and voting rights. The aforementioned rights are not subject to lock-up period. Upon the expiry of the lock-up period, unless otherwise agreed, Participants who have fulfilled the unlocking conditions can dispose the unlocked Incentive Shares by transferring their respective interests in the Partnership.

- (b) Source and category of the Shares subject to the equity to be granted under the Equity Incentive Scheme

The Incentive Shares under the Equity Incentive Scheme comprise the Non-tradable and Non-listed Domestic Shares to be issued to the employees' shareholding platform by the Company.

- (c) Amount of equity to be granted under the Equity Incentive Scheme and its percentage of the total share capital of the Company

(4) *Validity period, locked-up period and unlocking period arrangement of the Equity Incentive Scheme*

(a) Validity period of the Equity Incentive Scheme

The validity period of the Equity Incentive Scheme shall be 10 years from the date of approval at the annual general meeting for the year 2017 (i.e. April 26, 2018), unless it is terminated in accordance with the relevant provisions of the Equity Incentive Scheme.

(b) Locked-up period of the Equity Incentive Scheme

The locked-up period of the Incentive Shares granted to the Participants is 48 months, calculated from the date the Participants are granted the Incentive Shares.

(c) Unlocking period arrangement of the Equity Incentive Scheme

Incentive Shares under the first grant shall be unlocked in one go after 48 months (June 28, 2022) from the date of the first grant (June 29, 2018); Incentive Shares under the reserved grant shall be unlocked concurrently with those under the first grant unless the circumstances are exceptional where the amendment plan shall be made under the Equity Incentive Scheme.

(5) *Granting procedures of the Equity Incentive Scheme*

- (i) The general partner of the Partnership and the Participants shall sign the Partnership agreement to stipulate the rights and obligations of both parties.
- (ii) The Company will issue the “Demand Note” to the Participants on the Grant Date.
- (iii) The Participants will sign the “Demand Note” and return one of the originals to the Company.
- (iv) Within the period specified by the Company, the Participants will pay the funds used to subscribe for Incentive Shares (calculated based on the grant price) to the accounts designated by the Company according to the requirements of the Company.
- (v) The Company will prepare a management register of the Equity Incentive Scheme according to the entering into of agreements and subscription by the Participants, setting out names of Participants, numbers of Shares granted, grant date, amount of payment and the sequential number of Partnership agreements, etc.

For the six months ended June 30, 2022, the changes in the Incentive Shares granted under the Equity Incentive Scheme are as follows:

Name of Grantee	Date of Grant	Closing Price before the Date of Grant (HKD)	Vesting Date (Unlocking Date)	Grant Price (RMB)	Balance of Incentive Shares Granted but not Vested as at January 1, 2022	Granted during the Reporting Period	Vested (Unlocked) during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Balance of Incentive Shares Granted but not Vested as at June 30, 2022
<i>Directors</i>										
Ms. WANG Lianyue	June 18, 2021	35.95	June 28, 2022	10.47	248,328	–	248,328	–	–	–
Ms. WANG Hongyue (resigned)	June 18, 2021	35.95	June 28, 2022	10.47	95,511	–	95,511	–	–	–
<i>Supervisors</i>										
Mr. SUN Fangjun	June 18, 2021	35.95	June 28, 2022	10.47	14,327	–	14,327	–	–	–
Mr. XIE Tiefan	June 18, 2021	35.95	June 28, 2022	10.47	4,776	–	4,776	–	–	–
<i>Others</i>										
Mr. XU Yi (spouse of Ms. WANG Hongyue)	June 18, 2021	35.95	June 28, 2022	10.47	28,653	–	28,653	–	–	–
Ms. WANG Biyu (niece of Ms. WANG Lianyue and Ms. WANG Hongyue)	June 18, 2021	35.95	June 28, 2022	10.47	4,776	–	4,776	–	–	–
Ms. XU Qunyan (younger sister of Mr. XU Yi)	June 18, 2021	35.95	June 28, 2022	10.47	4,776	–	4,776	–	–	–
Mr. GUAN Weilu (younger brother of Mr. GUAN Weili)	June 18, 2021	35.95	June 28, 2022	10.47	19,102	–	19,102	–	–	–
Mr. SUN Hongbo (nephew of Ms. WANG Lianyue and Ms. WANG Hongyue)	June 18, 2021	35.95	June 28, 2022	10.47	30,563	–	30,563	–	–	–
Ms. ZHANG Linghui (sister-in-law of Mr. GUAN Weili)	June 18, 2021	35.95	June 28, 2022	10.47	4,776	–	4,776	–	–	–
Senior management	August 20, 2018	38.80	June 28, 2022	10.47	133,715	–	133,715	–	–	–
Core technical personnel	August 20, 2018	38.80	June 28, 2022	10.47	1,684,814	–	1,684,814	–	–	–
	August 26, 2019	36.00	June 28, 2022	10.47	142,311	–	142,311	–	–	–
Other employees (total)	August 26, 2019	36.00	June 28, 2022	10.47	38,204	–	38,204	–	–	–
Total					2,454,632	–	2,454,632	–	–	–

4.4.10 Employee Training Program

During the Reporting Period, the employee training program of the Company remained unchanged. For relevant information, please refer to the “Employee Training Program” of the Company’s 2021 annual report.

5 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.

6 SIGNIFICANT EVENTS

6.1 Change of Auditor

References are made to the announcements of the Company dated January 30, 2022 and December 16, 2022 and the circular dated November 18, 2022.

As PricewaterhouseCoopers Zhong Tian LLP (“PwC”) noted significant cash flows issues during the relevant review procedures performed in accordance with the requirements of the China Securities Regulatory Commission and did not obtain adequate and reasonable explanations and evidence regarding their concerns about the above issues, PwC considered that it was unable to deDecm/bt thescoops of subdeqmen aAudi worke tobues performed and od

30, 2022

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6.2 Independent investigation related matters

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

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

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

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

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

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

6. Strengthening the internal control system and compliance supervision.

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

6.3 Correction of accounting errors in previous periods

As mentioned in paragraph 6.2 of this announcement, certain matters identified by the independent investigation may have an impact on the disclosed 2021 interim financial statements of the Company, the 2022 Interim Financial Report was considered and approved on the Thirty-third Meeting of the Third Session of the Board and the Tenth Meeting of the Third Session of the Board of the Company. The correction of errors in previous periods to the disclosed 2021 interim financial statements is as follows:

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

6.3.1.1 Correction of the questionable accounts receivable collected to liabilities

The independent investigation indicated that in 2019 and 2020, RMB14.43 million of the accounts receivable collected by the Company were not fairly agreed donations, other than RMB5.25 million could be recognized as 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 June 30, 2021 financial statements was to increase other payables by RMB14,435,863.54, and decrease the retained earnings at the beginning of the period by RMB14,435,863.54.

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

Some of the poverty-stricken patients of the Company have applied for assistance from charitable organizations, and the related relief funds were transferred to the Company directly from the charitable organizations. Previously, the Company treated such grants from charitable organizations as collections from accounts receivable from patients. After consideration by the Board, it was considered more prudent to treat those grants as donations to the Company. The effect of this error correction on the June 30, 2021 financial statements was to increase non-operating income by RMB4,735,525.65 and to decrease the retained earnings at the beginning of the period by RMB4,735,525.65.

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

The Company reduced the revenue in the years of 2019 and 2020 and as of June 30, 2021, and re-evaluated the proportion of provision for bad debts of accounts receivable at the end of 2019 and 2020 and as of June 30, 2021 accordingly. The impact of this error correction on the June 30, 2021 financial statements was to reduce revenue by RMB15,064,689.77, reduce accounts receivable by RMB132,482,458.21, reduce provision for bad debts of accounts receivables by RMB34,893,554.69, reduce credit impairment losses by RMB9,655,636.47 and reduce the retained earnings at the end of the period by RMB92,179,850.22.

6.3.1.4 The deferred income tax assets were corrected accordingly based on the corrected deductible temporary differences. The impact of the error correction on the June 30, 2021 financial statements was to reduce deferred income tax assets by RMB7,302,786.81, increase income tax expense by RMB984,353.58, increase capital surplus by RMB706,662.59 and reduce the retained earnings at the beginning of the year by RMB7,025,095.82.

6.3.1.5 Other error corrections not directly related to the independent investigation matters

Other than the independent investigation matters, the Company also re-examined other accounting treatments as of June 30, 2021 and found certain immaterial accounting errors, which were corrected together holding the principles of being as true and accurate as possible under the consent of the Board, details of which are as follows:

(All amounts in RMB Yuan unless otherwise stated)

Content of correction of accounting errors	Affected items in the financial statements as of June 30, 2021	Affected amount
Presentation of donation expenses and income for the same charitable organization on a net basis	Non-operating income	-500,000.00
	Non-operating expenses	-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	7,594,255.97
	Capital surplus	7,776,668.38
	Non-controlling interests	-182,412.41
Correction of errors in subsequent measurements based on the latest available audit reports of associates	Long-term equity investments	4,090,422.02
	Capital surplus	4,914,906.11
	Adjustment of profit and loss from previous years	-824,484.09

Content of correction of accounting errors	Affected items in the financial statements as of June 30, 2021	Affected amount
Correction of errors in contracts which satisfy the nature of leases in accordance with leasing standards	Right-of-use assets Advances to suppliers Lease liabilities Accounts payable Cost of sales Finance expenses Adjustment of profit and loss from previous years	4,670,519.15 -191,050.02 4,918,751.75 30,915.91 -8,458.45 118,805.72 -359,851.26
Correction of intermediary fees prior to IPO filing from prepayments to general and administrative expenses	Advance payments General and administrative expenses Adjustment of profit and loss from previous years	-4,541,010.39 3,126,703.82 -1,414,306.57
Correction of errors in provision for bad debts of other receivables from cancelled subsidiaries	Provision for bad debts of other receivables Adjustment of profit and loss from previous years	-30,010.00 30,010.00
Adjustment of related party transactions	Accounts receivable Revenue	-10,000.00 -10,000.00
Correction of cost of sales settled across periods	Accounts payable Other payable Adjustment of profit and loss from previous years	2,262,661.27 -2,800,724.33 538,063.06
Regarding 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 Adjustment of profit and loss from previous years Non-controlling interests	1,631,656.52 3,670,301.65 -5,301,958.17
Other reclassification errors	Other receivables Other payables Lease liabilities Non-current liabilities due within one year	-12,332,834.67 -12,332,834.67 -860,000.00 860,000.00

6.3.2 Impacts of correction of accounting errors in previous periods on the June 30, 2021 financial statements

(1) Consolidated Income Statement

(All amounts in RMB Yuan unless otherwise stated)

Item	Restated	Accumulated amounts impacted by error correction	Before restatement
1.Revenue	607,736,706.59	-15,074,689.77	622,811,396.36
Of which: Revenue from main businesses	561,344,645.23	-15,074,689.77	576,419,335.00
2.Cost of sales	566,389,581.01	-6,418,585.09	572,808,166.10
Of which: Cost of sales	454,141,400.56	-8,458.44	454,149,859.00
General and administrative expenses	76,061,449.25	3,126,704.10	72,934,745.15
Financial expenses	17,237,698.27	118,805.72	17,118,892.55
Credit impairment losses	-2,313,298.25	9,655,636.47	-11,968,934.72
3.Operating profit	51,115,693.18	-8,656,104.68	59,771,797.86
Add: Non-operating income	4,840,495.28	4,235,525.65	604,969.63
Less: Non-operating expenses	2,211,519.98	-500,000.00	2,711,519.98
4.Total profit	53,744,668.48	-3,920,579.03	57,665,247.51
Less: Income tax expenses	17,506,450.86	984,353.58	16,522,097.28
5.Net profit	36,238,217.62	-4,904,932.17	41,143,149.79
6.Other comprehensive income, net of tax	36,238,217.62	-4,904,932.17	41,143,149.79
Of which: Total comprehensive income attributable to owners of the parent company	35,003,345.89	-7,909,831.90	42,913,177.79
Total comprehensive income attributable to non-controlling interests	1,234,871.73	3,004,899.73	-1,770,028.00

(2) Consolidated Balance Sheet

(All amounts in RMB Yuan unless otherwise stated)

Item	Restated	Accumulated amounts impacted by error correction	Before restatement
ASSETS			
Current assets:			
Accounts receivable	284,596,120.10	-132,492,458.21	417,088,578.31
Less: Provision for bad debts of accounts receivable	9,277,549.75	-34,893,554.69	44,171,104.44
Accounts receivable, net	275,318,570.35	-97,598,903.52	372,917,473.87
Prepayments	12,565,753.92	-4,732,060.38	17,297,814.30
Other receivables	47,645,819.54	-12,332,836.88	59,978,656.42
Less: Provision for bad debts of other receivables	2,441,789.57	-30,010.00	2,471,799.57
Other receivables, net	45,204,029.97	-12,302,826.88	57,506,856.85
Total current assets	669,134,939.17	-114,633,790.78	783,768,729.95
Non-current assets:			
Long-term equity investments	127,062,370.79	4,090,421.66	122,971,949.13
Right-of-use assets	17,429,613.30	199,949.57	17,297,814.30

Item	Restated	Accumulated amounts impacted by error correction	Before restatement
Non-current liabilities:			
Lease liabilities	231,269,027.43	4,058,751.75	227,210,275.68
Total non-current liabilities	<u>488,661,172.65</u>	<u>4,058,751.75</u>	<u>484,602,420.90</u>
Total liabilities	<u>1,045,285,733.82</u>	<u>6,514,633.48</u>	<u>1,038,771,100.34</u>
Owners' equity:			
Capital surplus	829,085,404.95	15,029,893.60	814,055,511.35
Retained earnings	239,961,660.67	-121,641,539.03	361,603,199.70
Total equity attributable to owners of the parent company	1,180,947,515.62	-106,611,645.40	1,287,559,161.02
Non-controlling interests	79,052,954.74	-5,484,370.58	84,537,325.32
Total owners' equity	<u>1,260,000,470.36</u>	<u>-112,096,015.98</u>	<u>1,372,096,486.34</u>
TOTAL LIABILITIES AND OWNERS' EQUITY	<u>2,305,286,204.18</u>	<u>-105,581,382.50</u>	<u>2,410,867,586.68</u>

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

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.

7 EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in the "Significant Events" in this interim results announcement, no major subsequent events occurred to the Group during the Reporting Period.

8 REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed this interim results announcement and the Group's financial information for the six months ended June 30, 2022, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made.

The Audit Committee consists of two independent non-executive Directors, Ms. ZHONG Wentang (the chairperson of the Audit Committee), Mr. LIU Ning, and one non-executive Director, Mr. LI Changhao.

9 INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended

11 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 required in the new Companies Ordinance (《公司條例》) (Chapter 622 of the laws of Hong Kong) (the “**Companies Ordinance**”).

12 FINANCIAL REPORT

12.1 Accounting Policies

12.1.1 Accounting Policies

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard (《企業會計準則 - 基本準則》) and specific accounting standards and relevant rules issued by the Ministry of Finance of the PRC (the “**Ministry of Finance**”) on February 15, 2006.

The financial statements are prepared and has disclosed relevant financial information in accordance with the requirements of the Accounting Standard for Business Enterprises No. 32 – Interim Financial Report (《企業會計準則第 32 號 - 中期財務報告》) issued by the Ministry of Finance.

The Group’s accounting policies applied in preparing the financial statements are consistent with those policies applied in the financial statements for the year ended 2021. The interim financial statements shall be read together with the financial statements for the year ended 2021 of the Group.

The financial statements are prepared on a going concern basis.

The Companies Ordinance has commenced operation in 2016. Some notes in the financial statements have been reflected the new requirements of the Companies Ordinance.

12.2 Interim Financial Statement

The Interim Financial Statement of the Group prepared in accordance with the China Accounting Standard for Business Enterprises is set out as follows:

12.2.1 Interim Consolidated Income Statement

(All amounts in RMB unless otherwise stated)

Items	For the six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited) (Restated)
I. Total revenue	738,304,534	607,736,707
Including: Revenue	738,304,534	607,736,707
Interest income	—	—
Premium income	—	—
Fees and commissions income	—	—
II. Total cost of sales	680,267,108	566,389,581
Including: Cost of sales	540,536,168	454,141,400
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	2,011,207	2,244,722
Selling and distribution expenses	6,115,885	4,898,586
General and administrative expenses	94,894,219	76,061,449
Research and development expenses	15,061,500	11,805,726
Financial expenses	21,648,129	17,237,698
Including: Interest expenses	22,800,335	18,351,839
Interest income	-1,699,140	-1,684,441

Items	For the six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited) (Restated)
Add: Other income	5,904,642	5,362,467
Investment income (losses represented with “-” signs)	-278,820	5,364,428
Including: Investment income from associates and joint ventures	-1,671,781	-754,563
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)	30,712	1,354,970
Credit impairment losses (losses represented with “-” signs)	-2,731,680	-2,313,298
Asset impairment losses (losses represented with “-” signs)	—	—
Gains from disposal of assets (losses represented with “-” signs)	389,316	—
	<u>61,351,596</u>	<u>51,115,693</u>
III. Operating profit (losses represented with “-” signs)	61,351,596	51,115,693
Add: Non-operating income	5,351,732	4,840,495
Less: Non-operating expenses	3,372,510	2,211,520
	<u>63,330,818</u>	<u>53,774,668</u>
IV. Total profit (total losses represented with “-” signs)	63,330,818	53,774,668
Less: Income tax expenses	19,110,080	17,506,451
	<u>44,220,738</u>	<u>36,238,217</u>
V. Net profit (net losses represented with “-” signs)	44,220,738	36,238,217

Items	For the six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited) (Restated)
VI. Other comprehensive income, net of tax		
Other comprehensive income attributable to shareholders of the parent company, net of tax		
(I) Other comprehensive income that cannot be reclassified to profit and loss		
1. Changes arising from remeasurement of defined benefit plan	—	—
2. Other comprehensive income that cannot be reclassified to profit or loss under the equity method	—	—
3. Changes in fair value of other equity instrument investments	—	—
4. Changes in fair value due to the enterprise's own credit risk	—	—
(II) Other comprehensive income that can be reclassified to profit and loss		
1. Other comprehensive income that can be reclassified to profit or loss under the equity method	—	—
2. Changes in fair value of other debt investments	—	—
3. Amount of financial assets reclassified into other comprehensive income	—	—
4. Credit impairment provisions for other debt investments	—	—
5. Reserves for cash flow hedges	—	—
6. Exchange difference on translation of financial statements in foreign currencies	—	—
7. Others	—	—
Other comprehensive income attributable to non-controlling interests, net of tax	—	—
VII. Total comprehensive income	44,220,738	36,238,218
Attributable to shareholders of the parent company	38,788,156	35,003,346
Attributable to non-controlling interests	5,432,582	1,234,872
VIII. Earnings per share:		
(I) Basic (RMB per share)	0.52	0.48
(II) Diluted (RMB per share)	0.52	0.48

12.2.2 Interim Consolidated Balance Sheets

(All amounts in RMB Yuan unless otherwise stated)

June 30,

ASSETS

ASSETS	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Non-current assets:		
Granted loans and advances	—	—
Debt investments	—	—
Other debt investments	—	—
Long-term accounts receivable	—	—
Long-term equity investments	122,484,929	129,847,779
Investment in other equity instruments	—	—
Other non-current financial assets	65,842,986	65,812,275
Investment properties	—	—
Fixed assets	713,912,240	721,846,772
Construction in progress	98,218,972	43,795,718
Productive biological assets		
Oil and gas assets		
Right-of-use assets	246,807,579	257,412,270
Intangible assets	268,864,040	227,991,785
Development expenditure		
Goodwill	138,174,185	135,741,377
Long-term prepaid expenses	206,776,664	150,501,038
Deferred tax assets	14,029,708	14,336,965
Other non-current assets	20,006,960	21,066,387
Total non-current assets	1,895,118,263	1,768,352,366
TOTAL ASSETS	2,693,722,838	2,377,967,867

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Current liabilities:		
Short-term borrowings	361,050,000	254,050,000.00
Borrowings from central bank	—	—

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Non-current liabilities:		
Provision for insurance contracts	—	—
Long-term borrowings	404,330,000	280,950,000.00
Bonds payable	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Lease liabilities	240,844,821	231,733,761
Long-term payables	—	—
Long-term employee benefits payables	—	—
Provisions	—	—
Deferred income	9,189,787	9,341,683
Deferred tax liabilities	42,351,531	39,875,790
Other non-current liabilities	—	—
Total non-current liabilities	<u>696,716,139</u>	<u>561,901,234</u>
Total liabilities	<u>1,339,417,630</u>	<u>1,106,879,610</u>
Shareholders' equity:		
Share capital	74,600,300	74,600,300
Other equity instruments	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Capital surplus	847,172,518	838,165,396
Less: Treasury stock	—	—
Other comprehensive income	—	—
Special reserves	—	—
Surplus reserve	38,399,577	38,399,577
Provision for general risks	—	—
Retained earnings	289,622,711	247,907,761
Total equity attributable to shareholders of the parent company	1,249,795,105	1,199,073,033
Non-controlling interests	104,510,103	72,015,224
Total shareholders' equity	<u>1,354,305,208</u>	<u>1,271,088,257</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>2,693,722,838</u>	<u>2,377,967,867</u>

12.2.3 Interim Consolidated Statements of Cash Flow
(All amounts in RMB Yuan unless otherwise stated)

Items	For the six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited)
I. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	653,410,155	539,688,900
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	57,537,283	10,297,037
Sub-total of cash inflows of operating activities	710,947,438	549,985,937
Cash paid for goods and services	305,934,085	218,754,957
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	267,178,624	207,867,279
Payments of taxes and surcharges	28,189,889	27,309,627
Cash paid relating to other operating activities	53,670,365	58,738,353
Sub-total of cash outflows of operating activities	654,972,963	512,670,216
Net cash flows from operating activities	55,974,475	37,315,721

Items	For the six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited)
II. Cash flows from investing activities		
Cash received from disposal of investments	—	—
Cash received from returns on investments	—	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	19,038,110	16,043,548
Net cash received from disposal of subsidiaries and other business units	—	14,240,472
Cash received relating to other investing activities	—	41,676,480
Sub-total of cash inflows of investing activities	19,038,110	71,960,500
Cash paid to acquire fixed assets, intangible assets and other long-term assets	121,119,528	83,456,941
Cash paid to acquire investments	—	30,000,000
Net increase in pledged loans	—	—
Net cash paid to acquire subsidiaries and other business units	62,372,717	16,771,568
Cash paid relating to other investing activities	—	2,650,000
Sub-total of cash outflows of investing activities	183,492,245	132,878,509
Net cash flows from investing activities	-164,454,135	-60,918,009
III. Cash flows from financing activities		
Cash received from capital contributions	4,040,100	2,445,056
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries	—	—
Cash received from borrowings	317,500,000	283,000,000
Cash received relating to other financing activities	2,551,764	—
Sub-total of cash inflows of financing activities	324,091,864	285,445,056
Cash repayments of borrowings	87,320,000	144,892,970
Cash payments for distribution of dividends, profit or interest expenses	17,290,881	11,987,325
Including: Cash payments for distribution of dividends and profit by subsidiaries to non-controlling shareholders	—	—
Cash paid relating to other financing activities	24,599,909	35,426,182
Sub-total of cash outflows of financing activities	129,210,790	192,306,477
Net cash flows from financing activities	194,881,074	93,138,579

Items	For the six months ended	
	June 30, 2022 (Unaudited)	2021 (Unaudited)
IV. Effect of foreign exchange rate changes on cash and cash equivalents	<u>44,312</u>	<u>-21,035</u>
V. Net increase in cash and cash equivalents	86,445,726	69,515,256
Add: Cash and cash equivalents at the beginning of the period	<u>188,734,845</u>	<u>200,092,665</u>
VI. Cash and cash equivalents at the end of the period	<u>275,180,571</u>	<u>269,607,921</u>

12.2.4 Consolidated Statement of Changes in Shareholders' Equity

(All amounts in RMB Yuan unless otherwise stated)

Items	Other equity instruments				Amount for the current period Equity attributable to owners of the parent company							Subtotal	Non-controlling interests	Total owners' equity
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risk	Retained earnings			
I. Balance as at the end of the previous year	74,600,300				838,165,396	-			38,399,577		247,907,761	1,199,073,034	72,015,224	1,271,088,258
Plus: Changes in accounting policies												-		-
Correction of accounting errors in previous periods												-		-
Business combinations under common control												-		-
Others											2,926,794	2,926,794		2,926,794
II. Balance as at the beginning of the current year	74,600,300	-	-	-	838,165,396	-	-	-	38,399,577	-	250,834,555	1,201,999,828	72,015,224	1,274,015,052
III. Increases/decreases in the current period ("-" for decreases)	-				9,007,122	-	-	-	-	-	38,788,156	47,795,278	32,494,879	80,290,157
(I) Total comprehensive income											38,788,156	38,788,156	5,432,582	44,220,738
(II) Owner contribution and capital decrease	-	-	-	-	9,007,122	-	-	-	-	-	-	9,007,122	27,062,297	36,069,419
1. Common stock contributed by owners												-	27,062,297	27,062,297
2. Capital invested by holders of other equity instruments												-		-
3. Amounts of share-based payments recognized in owners' equity					9,007,122							9,007,122		9,007,122
4. Others												-		-

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

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

Items	Amount for the current period													
	Equity attributable to owners of the parent company													
	Other equity instruments				Capital reserve	Less:	Other	Special reserve	Surplus reserve	Provision for general risk	Retained earnings	Subtotal	Non-controlling interests	Total owners' equity
Share capital	Preferred shares	Perpetual bonds	Others	Treasury stock		comprehensive income								
(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				847,172,518	-	-	-	38,399,577	-	289,622,711	1,249,795,106	104,510,103	1,354,305,209

Items	Amount for the previous period												Non-	
	Equity attributable to owners of the parent company													
	Other equity instruments				Capital reserve	Less:		Other comprehensive income	Special reserve	Surplus reserve	Provision for general risk	Retained earnings		Subtotal
	Share capital	Preferred shares	Perpetual bonds	Others		Treasury stock								

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	Non-controlling interests

	December 31, 2021 (Audited)				
	Balance of carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Percent of provision (%)	
Accounts receivable with provision for bad debts on the individual basis	7,247,978	2.26	4,590,286	63.33	2,657,692
Including:					
Amount due from patients	7,247,978	2.26	4,590,286	63.33	2,657,692
Accounts receivable with provision for bad debts on the grouping basis	313,875,732	97.74	4,775,549	1.52	309,100,183
Including:					
Overdue days grouping	313,875,732	97.74	4,775,549	1.52	309,100,183
Total	321,123,710	100.0	9,365,835	-	311,757,875

12.3.2 Accounts payable

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

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Within one year	48,941,028	65,938,475
One to two years	2,552,833	2,767,906
Two year to three years	299,070	168,510
Above three years	369,748	287,111
Total	52,162,679	69,162,002

12.3.3 Revenue and cost of sales

Analysis of revenue and cost of sales

	For the six months ended June 30,		2021	
	2022 (Unaudited)		(Unaudited) (Restated)	
	Revenue	Cost	Revenue	Cost
Main businesses	683,078,850	502,057,496	561,344,645	417,638,725
Other businesses	55,225,684	38,478,671	46,392,061	36,502,676
Total	<u>738,304,534</u>	<u>540,536,167</u>	<u>607,736,706</u>	<u>454,141,401</u>

Breakdown of revenue:

	For the six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited) (Restated)
Revenue from main businesses	683,078,850	561,344,645
Including: Pharmaceutical sales	147,585,740	128,279,902
Treatments and general healthcare services	535,493,110	433,064,743
Revenue from other businesses	55,225,684	46,392,061
Including: Wholesale and retail revenue of pharmaceutical and equipment	37,656,706	16,289,271
Management service	1,500,000	1,485,149
Rental income	3,417,246	3,325,241
Real estate sales	—	16,043,548
Others	12,651,732	9,248,852
Total	<u>738,304,534</u>	<u>607,736,706</u>

12.3.4 Earning per Share

Basic earning per Share

For the six months ended

12.3.5 Income tax expenses

Table of income tax expenses

	For the six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited) (Restated)
Current income tax expenses	23,230,774	13,554,984
Deferred income tax expenses	-4,120,694	3,951,467
Total	<u>19,110,080</u>	<u>17,506,451</u>

Reconciliation between total profit and income tax expenses

	For the six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited) (Restated)
Total profit	<u>63,330,818</u>	<u>53,744,668</u>
Income tax expenses calculated at the statutory tax rates	15,822,004	13,135,593
Impact of different tax rates applicable to subsidiaries	—	112,500
Adjustment to impact of income tax of past periods	80,526	314,248
Impact of non-taxable income	336,095	-1,149,859
Impact of non-deductible costs, expenses and losses	898,701	2,580,264
Impact of deductible losses of the deferred income tax assets unrecognized in the previous period	-1,031,422	-229,878
Impact of deductible temporary differences or deductible losses for which deferred income tax assets are not recognized in the current period	4,497,290	13,000,650
Additional deduction of research and development expenses	-1,446,861	-1,358,322
Impact of business combination involving enterprise not under common control	—	3,607,040
Others	-46,253	-5,291,705
Income tax expenses	<u>19,110,080</u>	<u>17,506,451</u>

12.3.6 Dividends

On October 26, 2022, the Board did not recommend the payment of a final dividend for the year ended December 31, 2021. The proposal not to declare dividend was approved by the Shareholders at the annual general meeting for the year 2021 of the Company on December 16, 2022.

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

13 CONTINUED SUSPENSION OF TRADING

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

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

“Company” or “Wenzhou Kangning Hospital”	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 2120)
“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”	

“HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Jinyun Shuning Hospital”	Jinyun Shuning Hospital Co., Ltd. (縉雲舒寧醫院有限公司), a company established in the PRC with limited liability on February 15, 2019, one of the Company’s non-wholly owned subsidiaries
“Lucheng Yining Hospital”	Wenzhou Lucheng Yining Hospital Co., Ltd. (溫州鹿城怡寧醫院有限公司), a company established in the PRC with limited liability on April 2, 2020, one of the Company’s direct non-wholly owned subsidiaries
“Luqiao Cining Hospital”	Taizhou Luqiao Cining Hospital Co., Ltd. (台州市路橋慈寧醫院有限公司, previously known as Taizhou Luqiao Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司)), a company established in the PRC with limited liability on December 12, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“Nanjing Yining Hospital”	Nanjing Yining Hospital Co., Ltd. (南京怡寧醫院有限公司), a company established in the PRC with limited liability on June 22, 2018, one of the Company’s indirect non-wholly owned subsidiaries
“Pingyang Changgeng Yining Hospital”	Pingyang Changgeng Yining Hospital Co., Ltd. (平陽長庚怡寧醫院有限公司), a company established in the PRC with limited liability on January 14, 2021, one of the Company’s wholly owned subsidiaries
“PRC” or “China”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Qingtian Kangning Hospital”	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, one of the Company’s wholly-owned subsidiaries

“Quzhou Yining Hospital”	Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015, one of the Company’s indirect non-wholly owned subsidiaries
“RMB”	the lawful currency of the PRC
“Share(s)”	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Yining Hospital”	Shenzhen Yining Hospital (previously known as Shenzhen Yining Hospital Co., Ltd. (深圳市怡寧醫院有限公司)), a company established in the PRC with limited liability on September 22, 2014, one of the Company’s indirect non-wholly owned subsidiaries
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
“Taizhou Kangning Hospital”	Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“the Reporting Period”	the six months ended June 30, 2022
“Wenzhou Guoda”	Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a company established in the PRC with limited liability on February 9, 2002. On June 24, 2021, the Company entered into an equity transfer agreement with Mr. Guan Weili, the actual controller, pursuant to which Mr. Guan Weili acquired 75% equity interest in Wenzhou Guoda held by the Company. Please refer to the announcement of the Company date June 24, 2021 for details
“Wenzhou Ouhai Yining Elderly Hospital”	Wenzhou Ouhai Yining Elderly Hospital Co., Ltd. (溫州甌海怡寧老年醫院有限公司), a company established in the PRC with limited liability on March 8, 2021, one of the wholly-owned subsidiaries of the Company
“Yining Psychology Internet Hospital”	Yining Psychology Internet Hospital (Wenzhou) Co., Ltd.(怡寧心理互聯網醫院(溫州)有限公司), a company established in the PRC with limited liability on March 10, 2020, one of the Company’s indirect wholly-owned subsidiaries

“Yongjia Kangning Hospital” Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company’s wholly-owned subsidiaries

“Yueqing Kangning Hospital”