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Yonghe Medical Group Co., Ltd.

雍禾醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2279)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2021

FINANCIAL HIGHLIGHTS

The Group's revenue increased by 32.4% from RMB1,638.3 million for the year ended December 31, 2020 to RMB2,168.6 million for the year ended December 31, 2021.

The Group's gross profit increased by 29.3% from RMB1,221.6 million for the year ended December 31, 2020 to RMB1,580.0 million for the year ended December 31, 2021. Gross profit margin decreased from 74.6% for the year ended December 31, 2020 to 72.9% for the year ended December 31, 2021.

The Group's net profit decreased by 26.4% from RMB163.3 million for the year ended December 31, 2020 to RMB120.2 million for the year ended December 31, 2021. Adjusted net profit⁽¹⁾ increased by 32.8% from RMB136.4 million for the year ended December 31, 2020 to RMB181.2 million for the year ended December 31, 2021. Adjusted net profit margin⁽²⁾ increased from 8.33% for the year ended December 31, 2020 to 8.35% for the year ended December 31, 2021.

Earnings per Share was RMB0.29 for the year ended December 31, 2021, as compared with RMB0.39 for the year ended December 31, 2020.

The Board has resolved to recommend a final dividend of RMB0.076 (equivalent to HK\$0.093) per Share for the year ended December 31, 2021, equivalent to a total amount of approximately RMB40.06 million, which is subject to the approval of the Shareholders at the AGM. The final dividend is expected to be paid on or before September 20, 2022 to the Shareholders whose names appear on the register of members of the Company at the close of business on July 6, 2022. The Group is not aware of any arrangement under which a Shareholder has waived or agreed to waive any dividends.

Non-HKFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with HKFRS, the Company has provided adjusted net profit and adjusted net profit margin as non-HKFRS financial measures, which is not required by, or presented in accordance with, HKFRS. The Company believes that the adjusted financial measures provide useful information to investors in understanding and evaluating the Group's consolidated statement of profit or loss in the same manner as they have helped the Company's management, and that the Company's management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial and operating performance from year to year by eliminating impacts of items that the Group does not consider indicative of the Group's operating performance. However, the presentation of these non-HKFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with HKFRS. You should not view the adjusted results on a stand-alone basis or as a substitute for results under HKFRS, or as being comparable to results reported or forecasted by other companies as they do not have a standardized meaning. Additionally, these non-HKFRS financial measures have limitations as analytical tools and may be defined differently from similar terms used by other companies.

Notes:

- (1) Adjustments to net profit for the year ended December 31, 2021 and 2020 include: (i) listing expenses of RMB47.0 million and RMB5.0 million in 2021 and 2020, respectively; (ii) COVID-19-related social insurance, rent concession and tax relief of RMB0.6 million and RMB32.0 million in 2021 and 2020, respectively; (iii) profit tax paid in respect of dividends to overseas companies and income tax of transfer of shares in the reorganization of RMB21.0 million in 2021; and (iv) compensations received from property owners for early termination of leases of RMB6.4 million in 2021.
- (2) Adjusted net profit margin is calculated by dividing adjusted net profit by revenue.

ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2021

The Board of Directors is pleased to announce the audited consolidated annual results of the Group for the year ended December 31, 2021, together with the comparative figures for the corresponding period in 2020 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue from contracts with customers	2,168,580	1,638,297
Cost of sales and services	<u>(588,604)</u>	<u>(416,667)</u>
Gross profit	1,579,976	1,221,630
Selling and marketing expenses	(1,072,647)	(779,611)
General and administrative expenses	(247,542)	(162,022)
Research and development expenses	(14,163)	(11,815)
Net reversal gains/(impairment losses) on financial assets	153	(487)
Other income	3,603	6,304
Other gains/(losses) – net	<u>6,715</u>	<u>(7,738)</u>
Operating profit	256,095	266,261
Finance income	6,130	941
Finance costs	<u>(51,949)</u>	<u>(36,288)</u>
Profit before income tax	210,276	230,914
Income tax expense	<u>(90,088)</u>	<u>(67,582)</u>
Profit for the year	120,188	163,332
Other comprehensive income		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Currency translation differences	761	–
<i>Items that will not be reclassified to profit or loss</i>		
Currency translation differences	<u>545</u>	<u>–</u>
Total comprehensive income for the year	<u>121,494</u>	<u>163,332</u>
Profit and total comprehensive income for the year attributable to equity holders of the Company	<u>121,494</u>	<u>163,332</u>
Earnings per share attributable to equity holders of the Company		
Basic earnings per share (<i>RMB</i>)	0.29	0.39
Diluted earnings per share (<i>RMB</i>)	0.28	0.39

CONSOLIDATED BALANCE SHEET

	As at December 31, 2021 <i>RMB'000</i>	As at December 31, 2020 <i>RMB'000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	450,213	309,437
Right-of-use assets	925,142	810,653
Intangible assets	41,257	3,547
Deferred income tax assets	32,544	29,012
Prepayments, deposits and other receivables	1,508	4,095
Total non-current assets	1,450,664	1,156,744
Current assets		
Inventories	53,138	26,996
Trade receivables	13,351	10,330
Prepayments, deposits and other receivables	115,958	107,430
Cash and cash equivalents	1,566,192	292,856
Total current assets	1,748,639	437,612
Total assets	3,199,303	1,594,356
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	8	–
Share premium	1,240,408	–
Other reserves	155,454	153,971
Retained earnings	302,475	252,087
Total equity	1,698,345	406,058
LIABILITIES		
Non-current liabilities		
Lease liabilities	762,303	682,879
Deffered income tax liabilities	975	219
Total non-current liabilities	763,278	683,098
Current liabilities		
Borrowing	74,173	25,870
Trade and other payables	225,708	138,232
Contract liabilities	189,524	120,423
Current income tax liabilities	63,220	73,624
Lease liabilities	185,055	147,051
Total current liabilities	737,680	505,200
Total liabilities	1,500,958	1,188,298
Total equity and liabilities	3,199,303	1,594,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Yonghe Medical Group Co., Ltd. (the “Company”) was incorporated in the Cayman Islands on September 17, 2020 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Floor 4, Willow House, Cricket Square, Grand Cayman KY1-9010, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the “Group”) are primarily engaged in the provision of (i) hair transplant and (ii) medical hair care services in the People’s Republic of China (the “PRC”) (the “Business”).

The Company had its listing on the Main Board of The Stock Exchange of Hong Kong Limited on December 13, 2021.

These consolidated financial statements are presented in Renminbi (“RMB”) and all amounts are rounded to the nearest thousand of RMB (“RMB’000”), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on March 24, 2022.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(i) *Compliance with HKFRS and the disclosure requirements of HKCO*

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance (“HKCO”) Cap. 622.

(ii) *Historical cost convention*

The consolidated financial statements has been prepared on a historical cost basis, as modified by the revaluation of financial assests and liabilities at fair value through profit and loss or revalued amount.

(iii) *New and amended standards adopted by the Group*

The group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

The group also elected to adopt the following amendments early:

- Covid-19-Related Rent Concessions beyond 30 June 2021

The amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations not yet adopted

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

	Effective for annual periods beginning on or after
HKFRS 17 – Insurance Contracts	January 1, 2023
Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to HKAS 37 – Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
Amendments to HKAS 16 – Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
Amendments to HKFRS 3 – Reference to the Conceptual Framework	January 1, 2022
Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Annual Improvements to HKFRS Standards 2018-2020	January 1, 2022
Amendments to HKAS 12 – Deferred Tax Related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies	January 1, 2023
Amendments to HKAS 8 – Disclosure of Accounting Policies	January 1, 2023
Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations (AG 5)	January 1, 2022
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (2020))	Applied when an entity applies “Classification of Liabilities as Current or Non-current – Amendments to HKAS 1”

These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of comprehensive income, statements of changes in equity and balance sheets respectively.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

3 REVENUE FROM CONTRACTS WITH CUSTOMERS

Our revenue consists of revenue from hair transplant service, medical hair care and others. The amount of each major category of revenue recognized during the year is as follows:

The following table sets forth a breakdown of our revenue by business line for the periods indicated:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Hair transplant	1,565,434	1,412,744
Medical hair care	582,290	213,214
Others	20,856	12,339
	<u>2,168,580</u>	<u>1,638,297</u>

The following table sets forth a breakdown of our revenue by geographical region for the periods indicated:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Revenue from customer by region		
Mainland China	2,160,776	1,638,297
Hong Kong	7,804	–
	<u>2,168,580</u>	<u>1,638,297</u>

4 OTHER INCOME

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Additional value-added tax credit (a)	2,781	1,802
Government grants (b)	822	4,082
Others	–	420
	<u>3,603</u>	<u>6,304</u>

(a) The amounts represent the additional value-added tax credit applicable to certain subsidiaries of the Group providing hair care services since April 2019.

(b) Government grants relating to income include various government subsidies received by the group entities from the relevant government bodies in connection with enterprise development, tax refund and employee related grants etc. All subsidies were recognised at the time when the Group fulfilled the relevant criteria and the related expenses were incurred.

5 FINANCE COSTS – NET

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Finance income		
Interest income on bank deposits	<u>6,130</u>	<u>941</u>
Finance costs		
Interest expenses on bank borrowings	(3,946)	(1,488)
Interest expenses for lease liabilities	<u>(48,003)</u>	<u>(34,800)</u>
	<u>(51,949)</u>	<u>(36,288)</u>
Finance costs – net	<u>(45,819)</u>	<u>(35,347)</u>

6 INCOME TAX EXPENSES

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Current income tax	93,649	75,715
Deferred income tax	<u>(3,561)</u>	<u>(8,133)</u>
Income tax expense	<u>90,088</u>	<u>67,582</u>

- (i) Our income tax expenses consist of current and deferred income taxes payable in the PRC by our subsidiaries. Income tax provision in respect of our operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year or period, based on existing legislations and interpretations and practices in respect thereof. In particular, Yonghe Investment, our PRC subsidiary, is qualified as “High and New Technology Enterprises” (“HNTes”) and is entitled to the preferential income tax rate of 15%. In addition, certain of our subsidiaries in the PRC are qualified as small and micro enterprises under the relevant tax rules and regulations of the PRC. Other than the above-mentioned subsidiaries, our other operating entities in the PRC are subject to standard income tax rate of 25% pursuant to the enterprise income tax law and related regulations.
- (ii) Cayman Islands: The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax.
- (iii) British Virgin Islands: Under the current laws of the British Virgin Islands, our subsidiaries incorporated in British Virgin Islands are not subject to income tax.
- (iv) Hong Kong: The subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at the rate of 16.5% on any estimated assessable profits arising in Hong Kong.

7 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the company, excluding undistributed earnings attributable to unvested restricted shares during the vesting period;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding shares held for employee share scheme. The shares subscribed for the interests in the Company upon the Reorganization and the share split pursuant to the shareholders’ resolution passed on November 12, 2021 had been adjusted retrospectively as if those shares have been issued since January 1, 2020.

	Year ended December 31,	
	2021	2020
Profit for the year attributable to equity holders of the Company (RMB’000)	120,188	163,332
Less: undistributed earnings attributable to unvested restricted shares during vesting period (RMB’000)	<u>(2,618)</u>	<u>(16,368)</u>
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share (RMB’000)	117,570	146,964
Weighted average number of ordinary equity shares in issue (’000)	400,750	375,890
Basic earnings per share for profit attributable to ordinary equity holders of the Company during the year (expressed in RMB per share)	<u>0.29</u>	<u>0.39</u>

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- 1 undistributed earnings attributable to unvested restricted shares during the vesting period added back to the numerator, and
- 2 the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	Year ended December 31,	
	2021	2020
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share (RMB'000)	117,570	146,964
Add: undistributed earnings attributable to unvested restricted shares during vesting period (RMB'000)	2,618	16,368
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share (RMB'000)	120,188	163,332
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share ('000)	400,750	375,890
Adjustments for calculation of diluted earnings per share: Restricted shares ('000)	29,418	43,172
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share ('000)	430,168	419,062
Diluted earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)	0.28	0.39

8 DIVIDENDS

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Dividend distribution (i)	69,800	–
Proposed final dividend of RMB0.076 per share (ii)	40,058	–

(i) On November 12, 2021, the Company declared a cash dividend of approximately RMB70 million, being RMB0.1645 per share. The dividend has been paid on November 25, 2021.

(ii) A dividend in respect of the year ended December 31, 2021 of RMB0.076 per share, amounting to a total dividend of approximately RMB40.06 million, is to be approved at the 2021 annual general meeting of the Company. These financial statements do not reflect this dividend payable.

9 INVENTORIES

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Pharmaceuticals and medical consumables	17,617	11,305
Medical hair care consumables	12,883	8,621
Wash and hair care products	16,894	3,876
Others	5,744	3,194
	<u>53,138</u>	<u>26,996</u>
Less: allowance for impairment of inventories	<u>—</u>	<u>—</u>
	<u>53,138</u>	<u>26,996</u>

10 TRADE RECEIVABLES

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Trade receivables from contracts with customers – Third parties	13,489	10,409
Less: allowance for impairment	<u>(138)</u>	<u>(79)</u>
	<u>13,351</u>	<u>10,330</u>

- (a) The Group usually receives the payment from customers in advance. The trade receivable is primarily the receivable from financial institutions or the third party payment platforms which the customers have already settled their payment through financial institutions or the third party payment platforms. The credit term given to the third party payment platforms are determined on an individual basis with normal credit period within 15 days. The Group starts to sell goods to the corporate customers in 2021 and generally offers them a credit term of 6 months. The aging analysis of the trade receivables based on invoice date is as follows:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Up to 3 months	12,305	10,403
3 to 6 months	<u>1,184</u>	<u>6</u>
	<u>13,489</u>	<u>10,409</u>
Less: allowance for impairment	<u>(138)</u>	<u>(79)</u>
Total	<u>13,351</u>	<u>10,330</u>

(b) Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amounts are considered to be approximately the same as their fair values.

(c) **Impairment and risk exposure**

The loss allowance for trade receivables as at December 31, 2020 and 2021 are determined as follows:

	2021	2020
	Loss allowance provision RMB'000	Loss allowance provision RMB'000
Trade receivables		
– Financial institutions	9	18
– Third party payment platforms	11	61
– Corporate customers	118	–
	<u>138</u>	<u>79</u>

11 TRADE AND OTHER PAYABLES

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Trade payables	36,059	44,676
Accrued employee benefits	83,712	71,077
Refund liabilities (i)	10,293	7,581
Accrued expenses	42,122	4,219
Tax payables	20,722	3,555
Security deposit	4,270	3,135
Amounts due to related parties	25,354	30
Others	3,176	3,959
	<u>225,708</u>	<u>138,232</u>

- (i) The Group has estimated the refund liabilities which is based on the Group's past experience with customers.
- (ii) Aging analysis of the trade payables based on invoice date at the end of each reporting period are as follows:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Up to 3 months	29,120	37,948
3 to 6 months	3,291	3,851
6 months to 1 year	1,378	2,344
1 to 2 years	1,961	408
Over 2 years	309	125
	<u>36,059</u>	<u>44,676</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As the leading medical group in China specialized in providing hair-related healthcare services, we offer one-stop hair-related healthcare services covering hair transplant, medical hair care, and routine hair restoration and other ancillary services. We focused on providing hair transplant services while constantly expanding the boundaries of our business. Since 2019, we started to provide medical hair care services by establishing a Svenson Medical Hair Care Center (史雲遜醫學毛髮中心) in each of our hair transplant clinics in mainland China under a “shop-in-shop” model. As of December 31, 2021, we operated 54 clinics in 53 cities nationwide, making us the largest and most extensive hair transplant clinic chain in China.

Benefiting from our broad network of clinics nationwide, as well as the integration of our hair transplant services and medical hair care services, our business achieved rapid growth. For the year ended December 31, 2021, revenue of the Group amounted to RMB2,168.6 million, representing an increase of 32.4% from that of RMB1,638.3 million in 2020. Our gross profit amounted to RMB1,580.0 million and our gross profit margin was 72.9% for the year ended December 31, 2021.

The following table sets forth the breakdown of our revenue, gross profit and gross profit margin by business line for the periods indicated :

	Year ended December 31,							
	2021				2020			
	Revenue <i>RMB'000</i>	%	Gross profit <i>RMB'000</i>	Gross profit margin %	Revenue <i>RMB'000</i>	%	Gross profit <i>RMB'000</i>	Gross profit margin %
Hair transplant services	1,565,434	72.2	1,138,031	72.7	1,412,744	86.2	1,061,144	75.1
Medical hair care services	582,290	26.8	430,254	73.9	213,214	13.0	157,305	73.8
Others	20,856	1.0	11,691	56.1	12,339	0.8	3,181	25.8
	2,168,580	100.0	1,579,976	72.9	1,638,297	100.0	1,221,630	74.6

Hair Transplant Services

For the year ended December 31, 2021, our revenue from hair transplant services amounted to RMB1,565.4 million, representing an increase of 10.8% over the previous year. We are committed to providing professional and high-quality hair transplant services to patients, and strategically build the brand influence of “Yonghe hair transplant” among patients through our multi-level service system. The number of hair transplant patients continued to grow as a result of such commitment and efforts. For the year ended December 31, 2021, the number of our hair transplant patients was 58,464, representing an increase of 15.3% over the previous year.

The table below illustrates the key operating data of our hair transplant services in mainland China:

	Unaudited	
	Year ended December 31,	
	2021	2020
Number of patients receiving hair transplant services	58,464	50,694
Average spending per patient (<i>RMB</i>)	26,643⁽¹⁾	27,868
Three Levels of Services		
Number of patients that accepted basic-level services	53,776	48,575
Number of patients that accepted premium-level services	4,435	1,827
Number of patients that accepted “Yongxiang” (雍享) services	253	292

(1) Average spending per hair transplant patient = (revenue from hair transplant business - revenue from the Hong Kong business of Nu/Hart Hair) / number of patients receiving hair transplant services

Medical Hair Care Services

For the year ended December 31, 2021, our revenue from medical hair care services amounted to RMB582.3 million, representing an increase of 173.1% over the previous year. As a first mover in China’s medical hair care industry, we have provided professional and customized diagnosis and treatment services to our patients through Svenson Medical Hair Care Centers (史雲遜醫學毛髮中心) in our hair transplant clinics under a “shop-in-shop” model. By continuously improving the service quality and treatment efficacy, we successfully strengthened the brand loyalty of patients and further stabilized the repurchase rate of our medical hair care services for the year of 2021. For the year ended December 31, 2021, the number of our medical hair care patients was 105,275, representing an increase of 78.1% over the previous year.

The table below illustrates the key operating data of our medical hair care services:

	Unaudited	
	Year ended December 31,	
	2021	2020
Number of patients receiving medical hair care services	105,275	59,122
Average spending per medical hair care patients (RMB)	5,531	3,606
* Repurchase rate	29.0%	28.9%

* Calculated by the number of patients purchasing our medical hair care services more than once, divided by the total number of patients who purchased our medical hair care services during the period.

BUSINESS UPDATES

Strengthening operational and medical service capabilities

Leveraging on our outstanding operational capability, we are able to effectively control our costs and enhance our operational efficiency and profitability. In terms of enhancing our operational efficiency of medical services, we improved our surgery efficiency by increasing the doctor-nurse ratio (per surgery) from 1:5 to 1:4, which provided a better surgical comfort to patients and effectively improved the utilization efficiency of our operating rooms and the manpower efficiency of our medical team. As of December 31, 2021, the average initial breakeven period of all of the Group's clinics in operation was approximately three months, and their average cash investment payback period (representing the time required for the recovery of the initial investment from accumulated operating cash flows) was approximately 14 months.

The Group achieved rapid expansion of clinics and provided consistent, high-quality medical services by standardizing the medical service system without compromising the quality of service. We realized full staff standardization, and implemented a full-process and full-coverage closed-loop quality control by establishing a comprehensive medical quality management system, which consists of the medical quality management committee at our headquarters as the core component with the support of medical quality control panels at clinics. The medical quality management system and process serve as the foundation together with the combination of online medical record quality control and surgery quality control.

In 2021, the Group focused its efforts on establishing a refined surgical quality management system. Under the leadership of the medical quality management committee at our headquarters, our "first diagnose physician accountability system" (首診醫生責任制) was launched to strengthen the sense of responsibility to medical quality among physicians as well as to prevent and control medical quality risk at source. Meanwhile, the Group published the "Yonghe Medical's White Paper on the Hierarchical Diagnosis System for Physicians" (《雍禾醫療醫生分級診療體系白皮書》). It refines and upgrades our medical quality evaluation system from the original 6-dimensional to 24-dimensional, which emphasizes the focus on patients' demands and enhancing patients' satisfaction through medical quality improvement. The establishment and improvement of these systems also laid a solid foundation for the Group to build a multi-level talent echelon and further develop and nurture talents possessing medical expertise.

As of December 31, 2021, the Group has built a professional medical team consisting of 1,221 members:

	2021
Professional team	1,221
– Physicians	259
– Nurses	893
– Other medical professionals (including pharmacists and clinical scientists)	69

Promoting innovation in products and services

During the Reporting Period, the Group also made great efforts in scientific research and innovation. Our collaboration with Sun Yat-sen University in researching follicular regeneration technology and our collaboration with West China Hospital of Sichuan University in the novel target for androgenic alopecia treatment are still in progress. In order to improve patients' experience, we carried out our groundbreaking research and development initiatives in multi-functional professional hair transplant surgical beds, and independently designed and developed ancillary surgical medical devices to enhance patients' safety and comfortability. We also conducted multiple research and development including drugs for preventing anxiety-induced alopecia to blaze a new trail for the treatment of hair loss. For the year ended December 31, 2021, we had 13 medical technology patents and three pending applications for invention patents, which have been applied to further improve our surgical safety and efficacy.

The remote consultations and “Yongxiang” (雍享) one-on-one exclusive customer service we provided allow us to offer our patients with more accessible diagnosis services. For each patient visiting our clinics, we provide a comprehensive diagnosis report, detailing the cause of hair loss and the nature and type of hair conditions. To improve patients' clinical experience and satisfaction, we also offer innovative medical technology services, such as hair transplant without shaving, painless surgery, intraoperative comfort care and stress relief at surgery rooms. At the same time, we are working on a series of technological information-based healthcare system such as automated follicle detectors and follicle number calculation system for photos taken in hair transplant surgery areas and intelligent surgery rooms. We will continue to strive for new heights in research and development activities relating to medical hair care services to further address the diversified needs of patients.

Promoting technological development

We adopt industry-leading technology to enhance patients' experience, enlarge our patient base, increase our operating efficiency and reduce costs. Our technological advancement is primarily reflected in three aspects, namely data usage and analysis, intelligent services, and online services.

We have set up a business management system that tracks, records and presents operational data of our clinics nationwide and launched a set of intelligent consultation service software for graphic, telephonic and video consultation services, and have set up a team of professional online medical staff to actively promote our online medical services. In addition, we have been working hard for the launch of other smart systems and facilities, such as AI smart hair testing, 3D smart beauty designing, smart hair loss size measuring, post-operative effect contraster, hair testing machine and integrated healthcare management system, with aims to reduce our costs of production and operation and enhance the experience of patients and the professionalism of our services.

We believe our technology-oriented operation represents a unique advantage that differentiates us from other hair-related healthcare service providers, enables continuous improvement of patients' experience, attracts more patients, and reinforces patients' loyalty, which will, in turn, promote our brand development, solidify our market dominance, and boost our sustainable future growth.

Pandemic impacts

The outbreak of COVID-19 has significantly affected the global economy. Since late July 2021, the delta variant of COVID-19 has recurred in several provinces across China, which had a certain impact on our business operation. Our 11 clinics located in Nanjing, Wuxi, Zhengzhou, Xi'an, Dalian, Harbin, Luoyang, Xiamen, Quanzhou, Lanzhou and Changzhou successively experienced temporary closures or limitation on customer flow due to the pandemic. Our plans to open another 3 new clinics in Yangzhou, Zhangzhou and Shantou and to upgrade the clinic in Urumqi were delayed due to the pandemic. As a result, our total revenue for 2021 was adversely affected to a certain extent by the recurrence of the pandemic. However, the recurrence of the pandemic was effectively controlled due to the quick response of the relevant authorities, which allowed our clinics in most of the cities to resume normal business operation. Meanwhile, leveraging the various marketing campaigns we launched and the efficient operation of online services, we encouraged patients who visited those clinics in pandemic-affected areas to return to our clinic for treatment when the pandemic is over. We believe these measures would help sustain our business growth regardless of potential pandemic outbreak in the future.

We will continue to assess the impacts of the COVID-19 pandemic by measuring the Group's operating and financial results. We will also closely monitor the development of the COVID-19 pandemic and the risk exposures and uncertainties faced by the Group. Appropriate measures will be taken as and when necessary.

PROSPECTS

Alopecia is the major hair-related problem presenting a high market demand for hair-related treatment in the PRC market. According to Frost & Sullivan, the size of the hair-related healthcare service market in China reached RMB18.4 billion in 2020, and is projected to grow to RMB138.1 billion in 2030 with a CAGR of 22.3%. In 2021, we received a total of approximately 149.9 thousand patients, representing an increase of 64.5% as compared with approximately 91.1 thousand patients in 2020. We expect such growth momentum to persist. Leveraging our efforts in building a one-stop platform for hair-related healthcare services and taking advantage of the favorable industry prospect, the Group's market-leading position and its established brand recognition, we believe that we are well-positioned to capture the great opportunities in this fast-growing market.

Continue the expansion and upgrade of our clinic network

- Hair transplant clinics

We will pursue our strategy of penetrating into lower-tier cities and densifying our presence in tier-one cities to further expand our network of hair transplant clinics and further increase our coverage across different tiers of cities. We expect to have nearly 70 hair transplant clinics in China by 2022.

- Svenson Medical Hair Care Centers

Entering into the hair care market from the hair transplant market, we will strategically develop our medical hair care business by upgrading our Svenson Medical Hair Care Centers under the previously "shop-in-shop" model as stand-alone medical hair care clinics. We expect to open 12 to 15 stand-alone Svenson Medical Hair Care Centers by 2022. We will open multiple Svenson Medical Hair Care Centers in one city to give patients convenient access to our services. Once we have mastered the mature business model of the stand-alone medical hair care clinics, we will accelerate our business development in the medical hair care industry. China's medical hair care service market will harbor huge growth potential in the next few years and such expansion will gain us significant first mover advantages.

- Comprehensive hair hospitals

We will soon commence operation of our two comprehensive hair hospitals in Beijing and Shanghai, which are under construction, after their construction is completed by 2022. Transforming our hair transplant clinics to comprehensive hair hospitals is another move made by us to achieve business expansion from hair transplant market to hair-related healthcare service market. Qualified as class I general hospitals, our newly-built comprehensive hair hospitals will have multiple hair-related specialty departments in addition to the hair transplant department, such as alopecia department, re-examination department, international department, feminine beauty department, Chinese medicine department and psychology department, enabling us to provide patients with professional diagnosis and comprehensive treatment solutions.

Promote synergy between hair transplant and medical hair care services

A strong synergy has been created alongside the business development of our hair transplant services and medical hair care services. In 2021, we recorded a conversion rate of 44.6% for hair transplant patients who continued to choose our medical hair care services after receiving hair transplant surgery, and a conversion rate of 4.4% for those who continued to choose our hair transplant surgery after receiving our medical hair care services. We will continue to diversify the solution offerings for our one-stop hair-related healthcare services. By doing so, we can offer a more comprehensive solution to patients on their hair-related healthcare problems, and provide patients with more accommodating services with better efficacy and higher cost performance ratio. Meanwhile, acquiring and maintaining different clienteles between our hair transplant and medical hair care services will further create synergies to redirect customers among business lines, which would help us to attain higher customer lifetime value, enhance our profitability and generate continuous revenue.

Satisfy diverse needs of customers

With the advent of aesthetic hair transplant, diversification of hair transplant options, and innovation of services, the customer base for hair transplant in China will expand from alopecia patients to a larger group of consumers seeking to improve appearance through medical treatment, which is expected to drive up the scale of China's hair transplant service market to reach RMB75.6 billion by 2030. In recent years, there has been an increase in the market share of female patients in the total number of hair transplant patients. Compared with the functional hair transplant for male, hair transplant surgeries receiving by female tend to suit to their aesthetic aspirations. At the end of 2021, the Group launched a brand targeting to female hair transplant, namely the “Yonghe Fa Zhi Chu” (雍禾髮之初), to provide professional female aesthetic hair management services for our female patients. Based on our experience in providing hair management services since our establishment, and our innovative female aesthetic hair-related healthcare system, we satisfy the diverse needs of our customers by providing services such as application of sitting hair extraction (坐位取髮), long hair extraction (長髮取髮), long hair transplantation (長髮種植) and clinical application of comfortable hair transplantation (舒適化植髮臨床應用).

Uphold the original intention of healthcare and implement the value of integrity and transparency in healthcare

As the technology in the hair transplant industry has become mature, the difference in the outcome of hair transplant surgery is largely dependent on the individual ability of physicians in terms of academic skills, surgical and clinical experience and customized design. The Group has always been committed to the scientific philosophy of “outstanding hair transplant depends on professional physicians”. Shadowing physicians, traps of low price and technology package are strictly forbidden by the Group. We act in the interest of our patients and advocate the value of “patients are the center and physicians are the core”. On May 24, 2021, the General Office of the State Council issued the Key Tasks for Deepening the Reform of the Medical and Healthcare System in 2021 (《深化醫藥衛生體制改革2021年重點工作任務》), expressly proposing to “accelerate and promote the hierarchical diagnosis and treatment system that ensures physicians to be fairly paid based on their skills, and avoid over-treatment for the benefits of patients. In response to the government's call, the Group meticulously improved a hierarchical diagnosis and treatment system for physicians taking into account the factors such as the healthcare quality, years of practice, medical qualification and service competence of physicians. Such system provides consistency and transparency in the intrinsic value and external price of physicians, paves a complete, rational and healthy path for the sustainable growth of physicians, and puts the physician accountability system into practice to the maximum extent. In the meantime, in order to better implement our

integrity and transparent healthcare value and provide high-quality services for patients, in February 2022, the Group made appropriate adjustments to the standard charges for hair transplant services which are classified into four bands according to the grading of “Yongxiang deans (雍享院長), Yongxiang chiefs (雍享主任), business deans (業務院長) and business chiefs (業務主任)” under our hierarchical diagnosis and treatment system. Higher weights are being assigned to more capable physicians and the pricing guideline has turned more straightforward and transparent. This helps patients make their decisions and incentivize our physicians to pursue excellence and seek self-enhancement. In the future, we will persist in upholding the original intention of healthcare and implementing the value of integrity and transparency in healthcare, as well as striving to create greater value for our patients.

* Data contained in the Prospect section is sourced from the industry information provided by Frost & Sullivan

FINANCIAL REVIEW

Revenue

In 2021, the Group had a revenue of RMB2,168.6 million (2020: RMB1,638.3 million), representing an increase of 32.4% over last year. The Group’s revenue is mainly derived from (i) hair transplant services; (ii) medical hair care services; and (iii) others.

The following table sets forth a breakdown of our revenue by business line for the periods indicated:

	Year ended December 31,			
	2021		2020	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Hair transplant services	1,565,434	72.2	1,412,744	86.2
Medical hair care services	582,290	26.8	213,214	13.0
Others	20,856	1.0	12,339	0.8
	<u>2,168,580</u>	<u>100.0</u>	<u>1,638,297</u>	<u>100.0</u>

Revenue from hair transplant services

The Group’s revenue from hair transplant services was RMB1,565.4 million (2020: RMB1,412.7 million) for 2021, representing an increase of 10.8% over last year. Such increase in revenue from hair transplant services was primarily attributable to the increased number of our patients. The number of hair transplant patients served by the Group increased by 7,770 from last year to 58,464 in 2021.

Revenue from medical hair care services

The Group’s revenue from medical hair care services was RMB582.3 million (2020: RMB213.2 million) for 2021, representing an increase of 173.1% over last year. Such increase in revenue from hair transplant services was primarily attributable to the rapid development of our medical hair care services under the brand name of Svenson, and the growth in the number of patients and average spending per patient in 2021. In 2021, the number of medical hair care patients served by the Group increased by 46,153 from last year to 105,275, and the average spending per patient increase from RMB3,606.0 in 2020 to RMB5,531.0 in 2021.

Revenue from other services

The Group's revenue from other services mainly derived from the rendering of services and sales of goods by our stand-alone Svenson stores, which amounted to RMB20.9 million (2020: RMB12.3 million) in 2021, representing an increase of 69.0% over last year. Such increase in revenue from other services was attributable to the growth in sales of products at Svenson stores.

Costs

During the Reporting Period, the Group's cost of sales and services primarily consisted of staff costs, amortization and depreciation charges, cost of inventories and consumables, operation related expenses and other expenses. The following table sets forth a breakdown of our cost of sales and services by nature for the periods indicated:

	Year ended December 31,			
	2021		2020	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Staff costs	246,910	42.0	165,946	39.8
Amortization and depreciation charges	177,874	30.2	141,686	34.0
Cost of inventories and consumables	101,220	17.2	63,951	15.3
Operation related expenses	33,048	5.6	21,164	5.1
Other expenses	29,552	5.0	23,920	5.8
	<u>588,604</u>	<u>100.0</u>	<u>416,667</u>	<u>100.0</u>

During 2021, the Group incurred costs of RMB588.6 million (2020: RMB416.7 million), representing an increase of 41.3% over last year. In particular, staff costs represent the salaries, wages and bonuses paid to physicians, nurses and other professionals, the increase in which was primarily attributable to increased headcount of our professional medical team to meet the requirements for the continued business expansion of our clinics. Amortization and depreciation charges mainly represent the depreciation of our right-of-use assets and fixed assets, the increase of which was in line with the increased number of our new clinics. The increase in cost of inventories and consumables was primarily attributable to the rapid development of our principal operations. Operation related expenses mainly include utilities and maintenance fees. Other expenses primarily include non-deductible input taxes and surcharges.

Gross profit and gross profit margin

In 2021, the Group recorded a gross profit of RMB1,580.0 million (2020: RMB1,221.6 million), representing an increase of 29.3% over last year. Our gross profit margin was 72.9% (2020: 74.6%). Such decline in gross profit margin was primarily attributable to (i) the expanded talent pool of the Group for future deployment; and (ii) the additional depreciation of right-of-use assets incurred for the increased number of our new clinics.

Other income

The Group's other income mainly consists of government grants and additional value-added tax credit. In 2021, the Group had other income of RMB3.6 million (2020: RMB6.3 million).

General and administrative expenses

During 2021, the Group incurred general and administrative expenses of RMB247.5 million (2020: RMB162.0 million). Our general and administrative expenses primarily consist of (i) staff costs, which represent share-based compensation expenses, wages, benefits and bonuses of our administrative staff; (ii) operation related expenses for our administrative team, which primarily include conference fees, utilities, maintenance fees and rental payments; (iii) professional and consulting service fees incurred in relation to audit services, rental agencies and internet services; (iv) amortization and depreciation charges; (v) travelling and entertainment expenses; and (vi) listing expenses. The following table sets forth a breakdown of our general and administrative expenses by nature for the periods indicated:

	Year ended December 31,			
	2021		2020	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Staff costs	123,566	49.9	99,357	61.3
Operation related expenses	16,299	6.6	11,835	7.3
Professional and consulting service fees	12,436	5.0	5,708	3.5
Amortization and depreciation charges	8,378	3.4	6,216	3.9
Travelling and entertainment expenses	6,360	2.6	4,677	2.9
Listing expenses	46,977	19.0	5,027	3.1
Others	33,526	13.5	29,202	18.0
	<u>247,542</u>	<u>100.0</u>	<u>162,022</u>	<u>100.0</u>

Selling and marketing expenses

In 2021, the Group incurred selling and marketing expenses of RMB1,072.6 million (2020: RMB779.6 million). Our selling and marketing expenses primarily consist of marketing and promotion expenses, staff costs, etc.

The following table sets forth a breakdown of our selling and marketing expenses by nature for the periods indicated:

	Year ended December 31,			
	2021		2020	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Marketing and promotion expenses	684,274	63.8	507,667	65.1
Staff costs	318,928	29.7	220,623	28.3
Travelling expenses	30,572	2.9	22,675	2.9
Operation related expenses	20,464	1.9	16,165	2.1
Amortization and depreciation charges	14,551	1.4	11,074	1.4
Others	3,858	0.3	1,407	0.2
	<u>1,072,647</u>	<u>100.0</u>	<u>779,611</u>	<u>100.0</u>

Income tax expenses

In 2021, the Group's income tax expenses increased by 33.3% to RMB90.1 million from RMB67.6 million in 2020. Such increase in income tax was primarily attributable to the dividend paid to overseas companies and the transfer of shares in the reorganization.

Net profit and net profit margin

In light of the foregoing, the Group's net profit decreased by 26.4% from RMB163.3 million in 2020 to RMB120.2 million in 2021. The Group's net profit margin dropped from 10.0% in 2020 to 5.5% in 2021. The net profit margin was lower than that for the year ended December 31, 2020 because the Group incurred additional listing expenses and the Group was at a stage of rapid development which led to an increase in expenses.

The Group's adjusted net profit increased by 32.8% from RMB136.4 million in 2020 to RMB181.2 million in 2021. The Group's adjusted net profit margin improved from 8.33% in 2020 to 8.35% in 2021.

Inventories

In 2021, the Group had inventories of RMB53.1 million (2020: RMB27.0 million). As our principal operations experienced rapid development during the Reporting Period, our stocks in warehouses increased accordingly.

Trade and other payables

As of December 31, 2021, the Group had trade and other payables of RMB225.7 million (2020: RMB138.2 million). Such movement was primarily attributable to the Listing of the Group during the Reporting Period, resulting in an increase in expenses as compared with last year, as well as the outstanding payments in relation to the acquisition of Nu/Hart Hair Solutions Limited.

Cash and cash equivalents

As of December 31, 2021, the Group had cash and cash equivalents of RMB1,566.2 million (2020: RMB292.9 million), representing an increase of 434.8% over last year. Such increase was primarily attributable to the proceeds received from the global offering by the Group. We have robust cash flows which are adequate to meet the capital requirements for daily operation and for our plan of future clinic expansion.

Cash flows

The following table sets forth selected data of the Group's consolidated statements of cash flows for the years indicated:

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	RMB'000
Net cash from operating activities	437,281	501,571
Net cash used in investing activities	(193,944)	(142,388)
Net cash from/(used in) financing activities	1,028,222	(156,116)
Cash and cash equivalents at beginning of the year	292,856	89,789
Cash and cash equivalents at end of the year	1,566,192	292,856

Liquidity and Capital Resources

The shares of the Company were successfully listed on the Main Board of the Stock Exchange on December 13, 2021, the gross proceeds from the share offering was HK\$1,491.9 million and the number of issued ordinary shares was 94,424,000 of HK\$15.8 each.

As at December 31, 2021, cash and cash equivalents of the Group amounted to RMB1,566.2 million (2020: RMB292.9 million). As at December 31, 2021, total bank borrowings of the Group amounted to RMB74.2 million (31 December 2020: RMB25.9 million).

Capital expenditures

The Group's capital expenditures mainly represent payments for purchase of items of property, plant and equipment and intangible assets. The following table sets forth a breakdown of our capital expenditures for the periods indicated:

	Year ended December 31,	
	2021	2020
	<i>RMB'000</i>	RMB'000
Payments for property, plant and equipment	181,629	142,204
Payments for intangible assets	9,012	643
Total	<u>190,641</u>	<u>142,847</u>

In 2021, the Group incurred capital expenditures of RMB190.6 million (2020: RMB142.8 million). Such increase in capital expenditures was driven by the business expansion of the Group.

Indebtedness

The Group's indebtedness mainly includes bank borrowings, amounts due to related parties and lease liabilities. The following table sets forth a breakdown of our indebtedness for the years indicated:

	As at December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Bank borrowings	74,173	25,870
Amounts due to related parties (non-trade)	25,354	30
Lease liabilities	185,055	147,051
Non-current		
Lease liabilities	762,303	682,879
Total	<u>1,046,885</u>	<u>855,830</u>

Bank borrowings

As of December 31, 2021, the Group had outstanding interest-bearing bank borrowings of RMB74.2 million (2020: RMB25.9 million). Our bank loans bear interest at rates ranging from 4.0% to 4.9% per annum.

Amounts due to related parties (Non-trade)

As of December 31, 2021, the Group had amounts due to related parties (non-trade) of RMB25.4 million (2020: RMB0.03 million). The balance of amounts due to related parties (non-trade) at the end of 2021 was the outstanding balance in respect of the acquisition of NU/Hart.

Lease liabilities

We recognize a lease liability with respect to all leases, except for short-term leases and leases of low value assets. As of December 31, 2021, the Group (as lessee) had total lease liabilities of RMB947.4 million, which were unsettled for the remaining terms of the relevant lease agreements.

Future plan for material investments and capital assets

Save as disclosed in the Prospectus, for the year ended December 31, 2021, the Group did not have any future plan for material investments and capital assets.

Material Acquisitions and Disposals

In May 2021, we acquired the Hong Kong business of Nu/Hart Hair (顯赫植髮), a renowned hair transplant service provider originated from the U.S. Nu/Hart Hair Solutions Limited which was established in Hong Kong and wholly owned by Zhuhai Xinsiyu Management Service Co., Ltd. (“Xinsiyu”) before acquisition. In order to expand the Company’s international business presence, we through our wholly-owned subsidiary Yuhui Management Holdings Limited, entered into a sale and purchase agreement with Xinsiyu, pursuant to which we purchased the entire issued share capital of Nu/Hart Hair at a consideration of RMB30.0 million or equivalent US dollar. The acquisition was duly completed on May 31, 2021. For details, please refer to “History, Development and Corporate Structure – Acquisition of NU/Hart Hair Solutions Limited” in the Prospectus.

For the year ended December 31, 2021, the Group did not make any other material acquisitions or disposals of subsidiaries, associates and joint ventures.

Charge of assets

There was no charge on the Group’s assets as of December 31, 2021.

Gearing ratio

Gearing ratio is calculated using bank loans and other borrowings divided by total equity as of the end of such year and multiplied by 100%. As at December 31, 2021, the Group's gearing ratio was 4.4% (December 31, 2020: 6.4%).

Exchange rates and any related hedges

The Group has no significant foreign currency risk as all of its operations, assets and liabilities are dominated in RMB which is also its functional currency. We did not hedge against any fluctuation in foreign currency during the historical record period. After the Listing, the Group had the cash and cash equivalents of RMB1,176.0 million denominated in foreign currencies, mainly HKD as at December 31, 2021. We monitor foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

Contingent liabilities

As at December 31, 2021, the Group did not have any material contingent liabilities (2020: Nil).

EMPLOYEES AND REMUNERATION POLICY

As of December 31, 2021, the Group had a total of 4,395 employees, among which 1,221 employees are our professional medical team members. Staff costs were RMB700.3 million for the year ended December 31, 2021, as compared to RMB494.9 million for the year ended December 31, 2020.

The Group continues to provide competitive compensation packages, attractive promotion opportunities, diverse training courses and a professional working environment to its employees. The Group remunerates the employees based on industry practices and individual's performance and experience. Remuneration packages primarily comprise of basic salary, performance-based compensation and/or discretionary bonus. As required by PRC laws and regulations, the Group participates in various employee social security plans for its employees that are administered by local governments, including housing provident fund, pension, medical, maternity, work-related injury and unemployment insurances.

FINAL DIVIDEND

The Board has resolved to recommend a final dividend of RMB0.076 (equivalent to HK\$0.093) per Share for the year ended December 31, 2021, which is subject to the approval of the Shareholders at the AGM. The final dividend will be paid in HK dollars based on the exchange rate of RMB1 to HK\$1.23, being the official exchange rate of HK dollars against Renminbi as quoted by the People's Bank of China on March 23, 2022. The final dividend is expected to be paid on or before September 20, 2022 to the Shareholders whose names appear on the register of members of the Company at the close of business on July 6, 2022. The Group is not aware of any arrangement under which a Shareholder has waived or agreed to waive any dividends.

ANNUAL GENERAL MEETING

The AGM will be held on June 28, 2022. A notice convening the AGM will be published on the websites of the Company (www.yonghegroup.cn) and the Stock Exchange (www.hkexnews.hk) and dispatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining entitlement of the Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from June 23 to June 28, 2022 (both days inclusive). In order to qualify for attending and voting at the AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by 4:30 p.m. on June 22, 2022.

For the purpose of ascertaining the Shareholders who are entitled to the final dividend, the register of members of the Company will be closed from July 5 to July 6, 2022 (both days inclusive). In order to qualify for the final dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at the same address above by 4:30 p.m. on July 4, 2022.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high corporate governance standards. It believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

Since the Listing Date, the Company has complied with all the applicable principles and code provisions as set out in the CG Code except for the deviation from provision C.2.1 of the CG Code. Mr. ZHANG Yu is the Chairman and chief executive officer of the Company. With extensive experience in the hair health industry and having served in the Company since its establishment, Mr. ZHANG Yu is in charge of the overall strategic planning, business direction and operational management of the Group. The Board considers that vesting the roles of the Chairman and the chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the Board, which comprises experienced and diverse individuals. The Board currently comprises two executive Directors (including Mr. ZHANG Yu), two non-executive Directors and three independent non-executive Directors, and therefore has a strong independent element in its composition.

The Company regularly reviews its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE

The Company has adopted the Model Code for dealings in securities of the Company by the Directors and relevant employees who are likely to be in possession of unpublished inside information of the Company.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code since the Listing Date.

No incident of non-compliance of the Model Code by the relevant employees has been noted by the Company since the Listing Date.

SUBSEQUENT EVENTS

On January 5, 2022, the joint global coordinators of the global offering partially exercised the over-allotment option and required the Company to issue a total of 7,124,500 Shares at the price of HK\$15.80 per Share. After deduction of underwriting fees, commissions and other issue expenses payable by the Company in connection with the partial exercise of the over-allotment option, the Company received additional proceeds of approximately HK\$107.5 million.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company was successfully listed on the Stock Exchange on December 13, 2021. The net proceeds from the global offering were HK\$1,435.0 million, which was based on the offer price of HK\$15.8 per Share and the actual expenses related to the Listing. After the Listing, these proceeds were and will be used for the purposes in accordance with the future plans as set out in the Prospectus. Since the Listing Date and up to December 31, 2021, the Group had not utilized any proceeds from the global offering.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Shares during the year ended 31 December 2021.

AUDIT COMMITTEE

The Board has established the audit committee (the “**Audit Committee**”) which is chaired by an independent non-executive Director, Mr. CHAN Peng Kuan, and consists of a non-executive Director, Mr. GENG Jiaqi and another independent non-executive Director, Mr. LI Xiaopei. The primary duties of the Audit Committee are to assist the Board by monitoring and evaluating the work of the external auditor, supervising the implementation of our internal audit system, reviewing and commenting on our financial reports and related disclosures, and other duties conferred by the Board.

REVIEW OF ANNUAL RESULTS

The Audit Committee has jointly reviewed with the management and the independent auditors of the Company, the accounting principles and policies adopted by the Company and discussed internal control and financial reporting matters (including the review of the audited consolidated financial statements of the Group for the year ended December 31, 2021, which has been agreed by the independent auditors of the Company) of the Group. The Audit Committee and the independent auditors consider that the annual results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

SCOPE OF WORK OF AUDITORS

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended December 31, 2021 as set out in this announcement have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2021. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yonghegroup.cn), and the 2021 annual report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

DEFINITIONS

“AGM”	annual general meeting of the Company
“Board” or “Board of Directors”	the board of Directors
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Chairman”	the chairman of the Board
“China” or the “PRC”	the People's Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company” or “Our Company”	Yonghe Medical Group Co., Ltd. (雍禾醫療集團有限公司), a limited liability company incorporated under the laws of the Cayman Islands on September 17, 2020, the Shares of which are listed on the Main Board (stock code: 2279)
“COVID-19”	Coronavirus disease of 2019

“Director(s)”	the director(s) of the Company
“Group”, “we”, “our”, “us”	the Company and its subsidiaries
“HK dollar(s)” or “HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of the Shares on the Main Board on December 13, 2021
“Listing Date”	December 13, 2021, being the date on which the Shares were listed on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Main Board”	main board of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus issued by the Company dated December 1, 2021
“Renminbi” or “RMB”	Renminbi Yuan, the lawful currency of the PRC
“Reporting Period”	the twelve-month period from January 1, 2021 to December 31, 2021
“Shareholder(s)”	holder(s) of Share(s)
“Share(s)”	ordinary share(s) with nominal value of US\$0.0000025 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

In this announcement, the terms “associate”, “connected person”, “controlling shareholder” and “subsidiary” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

By order of the Board
Yonghe Medical Group Co., Ltd.
ZHANG Yu
Chairman

Hong Kong, March 24, 2022

As at the date of this announcement, the Board of Directors of the Company comprises Mr. ZHANG Yu and Mr. ZHANG Hui, as executive Directors; Mr. ZHAI Feng and Mr. GENG Jiaqi, as non-executive Directors; and Ms. WANG Jiping, Mr. CHAN Peng Kuan and Mr. LI Xiaopei, as independent non-executive Directors.