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YONGHE

雍禾医疗

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 INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2022

FINANCIAL HIGHLIGHTS

Compared with RMB1,053.4 million for the six months ended June 30, 2021, our revenue amounted to RMB748.1 million for the six months ended June 30, 2022.

Compared with RMB775.4 million for the six months ended June 30, 2021, our gross profit amounted to RMB480.5 million for the six months ended June 30, 2022. Compared with 73.6% for the six months ended June 30, 2021, our gross profit margin was 64.2% for the six months ended June 30, 2022.

Compared with RMB40.4 million for the six months ended June 30, 2021, our net profit amounted to RMB17.6 million for the six months ended June 30, 2022.

During the Reporting Period, mutated COVID-19 viruses spread rampantly in a number of provinces of China, which had certain impact on our business operation. More than 30 clinics of the Group temporarily suspended/limited operation in compliance with the pandemic prevention measures implemented by government authorities, including the operation of the Group's top four clinics in terms of revenue contribution (located in Beijing, Shanghai, Shenzhen and Guangzhou, respectively) and some of the relatively profitable clinics in new tier-one/tier-two cities, which are located in the cities where the pandemic was severe in the first half of the year. Therefore, our performance for the first half of 2022 was adversely affected by the unstable pandemic situation to a certain extent.

Earnings per Share was RMB0.03 for the six months ended June 30, 2022, as compared with RMB0.10 for the six months ended June 30, 2021.

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2022.

The Board is pleased to announce the unaudited consolidated interim results of the Group for the six months ended June 30, 2022, together with the comparative figures for the corresponding period in 2021 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended June 30, | |
|---|----------------------------------|------------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | Unaudited | Audited |
| Revenue from contracts with customers | 748,137 | 1,053,400 |
| Cost of sales and services | <u>(267,641)</u> | <u>(277,983)</u> |
| Gross profit | 480,496 | 775,417 |
| Selling and marketing expenses | (388,246) | (577,947) |
| General and administrative expenses | (113,033) | (91,142) |
| Research and development expenses | (8,631) | (6,151) |
| Net reversal gains/(impairment losses) on financial assets | 90 | (376) |
| Other income | 7,822 | 2,133 |
| Other (losses)/gains – net | <u>(1,919)</u> | <u>7,211</u> |
| Operating (losses)/profit | (23,421) | 109,145 |
| Finance income | 63,895 | 2,408 |
| Finance costs | <u>(27,200)</u> | <u>(22,678)</u> |
| Finance income/(costs) – net | 36,695 | (20,270) |
| Profit before income tax | 13,274 | 88,875 |
| Income tax expense | <u>4,355</u> | <u>(48,434)</u> |
| Profit for the period | 17,629 | 40,441 |
| Other comprehensive (losses)/income | | |
| <i>Items that may be subsequently reclassified to profit or loss</i> | | |
| Currency translation differences | (328) | 710 |
| <i>Items that will not be reclassified to profit or loss</i> | | |
| Currency translation differences | <u>–</u> | <u>(1,657)</u> |
| Total comprehensive income for the period | 17,301 | 39,494 |
| Profit and total comprehensive income for the period attributable to equity holders of the Company | 17,301 | 39,494 |
| Earnings per share attributable to equity holders of the Company | | |
| Basic earnings per share (RMB) | 0.03 | 0.10 |
| Diluted earnings per share (RMB) | 0.03 | 0.10 |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | As at June 30, 2022 <i>RMB'000</i> Unaudited | As at December 31, 2021 <i>RMB'000</i> Audited |
|---|--|--|
| Assets | | |
| Non-current assets | | |
| Property, plant and equipment | 529,793 | 450,213 |
| Right-of-use assets | 907,090 | 925,142 |
| Intangible assets | 41,823 | 41,257 |
| Deferred income tax assets | 46,760 | 32,544 |
| Prepayments, deposits and other receivables | 6,328 | 1,508 |
| Total non-current assets | 1,531,794 | 1,450,664 |
| Current assets | | |
| Inventories | 67,516 | 53,138 |
| Trade receivables | 3,700 | 13,351 |
| Prepayments, deposits and other receivables | 131,356 | 115,958 |
| Cash and cash equivalents | 1,398,228 | 1,566,192 |
| Total current assets | 1,600,800 | 1,748,639 |
| Total assets | 3,132,594 | 3,199,303 |
| Equity | | |
| Share capital | 8 | 8 |
| Share premium | 1,332,287 | 1,240,408 |
| Other reserves | 155,218 | 155,454 |
| Retained earnings | 320,104 | 302,475 |
| Total equity | 1,807,617 | 1,698,345 |
| Liabilities | | |
| Non-current liabilities | | |
| Lease liabilities | 799,292 | 762,303 |
| Deferred income tax liabilities | 864 | 975 |
| Total non-current liabilities | 800,156 | 763,278 |
| Current liabilities | | |
| Borrowings | 65,430 | 74,173 |
| Trade and other payables | 125,100 | 225,708 |
| Contract liabilities | 167,679 | 189,524 |
| Current income tax liabilities | 17,324 | 63,220 |
| Lease liabilities | 149,288 | 185,055 |
| Total current liabilities | 524,821 | 737,680 |
| Total liabilities | 1,324,977 | 1,500,958 |
| Total equity and liabilities | 3,132,594 | 3,199,303 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 Act, 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 KY 1-9010, 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 condensed consolidated financial statements are presented in Renminbi (“RMB”) and all amounts are rounded to the nearest thousand of RMB (“RMB’000”), unless otherwise stated.

After another wave of outbreak of Coronavirus Disease 2019 (“COVID-19 outbreak”) in early 2022, a series of precautionary and control measures have been and continued to be implemented especially across the PRC. The pandemic in early 2022 has already caused a decrease in demand of the Group’s services in certain cities in the regional outbreak, which in turn resulted in downward pressure on the Group’s operations. The Group will pay close attention to the development of the COVID-19 outbreak and continuously evaluate its impact on the financial position and operating results of the Group.

These condensed consolidated financial statements have been approved for issue by the Board of Directors on August 29, 2022.

2. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended December 31, 2021, as described in the annual consolidated financial statements.

2.1 Functional currency

During the period, the functional currency of the Company has been voluntarily changed from United States dollars (“USD”) to RMB by the management as the Company has no business activity of its own except for investment holding. Moreover, nearly all of the holding entity’s subsidiaries operate in Mainland China with the functional currency of RMB. The Company is now considered to be an extension of the subsidiaries operating in Mainland China. As a result, the currency that reflects the economic substance of the underlying economic events that affect the holding entity is RMB.

The Company was established in September 2020 and the transactions were very limited in prior period, the impact caused by the change of accounting policy to the prior period’s financial statements was immaterial.

The following tables show the adjustments recognised for each individual line item for the current period ended June 30, 2022:

| | As at June 30, 2022 RMB’000 |
|---|--|
| Effect on interim condensed consolidated balance sheet | |
| Decrease in other reserves | 59,841 |
| Increase in retained earnings | 59,841 |

**Six months
ended
June 30, 2022**
RMB'000

Effect on interim condensed consolidated statement of comprehensive income

| | |
|--|--------|
| Increase in finance income – net | 59,841 |
| Decrease in other comprehensive income | 59,841 |
| Increase in basic earnings per share (RMB) | 0.12 |
| Increase in diluted earnings per share (RMB) | 0.12 |

2.2 Amended standards adopted by the Group

The following amended standards have been adopted by the Group for the first time for the financial year beginning on January 1, 2022.

**Effective for
accounting periods
beginning on or after**

| | |
|--|-----------------|
| Property, Plant and Equipment: Proceeds before intended use – Amendments to HKAS 16 | January 1, 2022 |
| Reference to the Conceptual Framework – Amendments to HKFRS 3 | January 1, 2022 |
| Onerous Contracts – Cost of Fulfilling a Contract Amendments to HKAS 37 | January 1, 2022 |
| Annual Improvements to HKFRS Standards 2018-2020 | January 1, 2022 |
| Amendments to AG 5 Merger Accounting for Common Control Combinations | January 1, 2022 |

The adoption of above did not have any material impact on the Group’s results for the six months ended June 30, 2022 and the Group’s financial position as at June 30, 2022. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

2.3 New and amended standards not yet applied by the Group

The Group has not early adopted any of the new or amended standards which have been published but not yet effective for financial period commencing January 1, 2022. These new or amended standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

**Effective for
accounting 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 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies” | January 1, 2023 |
| Amendments to HKAS 8 “Definition of Accounting Estimates” | January 1, 2023 |
| Amendments to HKAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” | January 1, 2023 |
| Amendments to HKFRS 10 and HKAS 28 “Sale or contribution of assets between an investor and its associate or joint venture” | To be determined |

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 recognised during the period is as follows:

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

| | Six months ended June 30, | |
|-------------------|-------------------------------------|-----------------------------------|
| | 2022 <i>RMB'000</i> Unaudited | 2021 <i>RMB'000</i> Audited |
| Hair transplant | 553,144 | 789,522 |
| Medical hair care | 187,628 | 254,189 |
| Others | 7,365 | 9,689 |
| | <u>748,137</u> | <u>1,053,400</u> |

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

| | Six months ended June 30, | |
|---------------------------------|-------------------------------------|-----------------------------------|
| | 2022 <i>RMB'000</i> Unaudited | 2021 <i>RMB'000</i> Audited |
| Revenue from customer by region | | |
| Mainland China | 743,183 | 1,052,646 |
| Hong Kong | 4,954 | 754 |
| | <u>748,137</u> | <u>1,053,400</u> |

4. OTHER INCOME

| | Six months ended June 30, | |
|---------------------------------------|-------------------------------------|-----------------------------------|
| | 2022 <i>RMB'000</i> Unaudited | 2021 <i>RMB'000</i> Audited |
| Government grants(a) | 6,651 | 493 |
| Additional value-added tax credit (b) | 1,171 | 1,640 |
| | <u>7,822</u> | <u>2,133</u> |

(a) Government grants relating to income include various government subsidies received by the group entities from the relevant government bodies in connection with listing of the shares on the Stock Exchange, 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.

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

5. EXPENSES BY NATURE

Expenses included in cost of sales and services, selling and marketing expenses, general and administrative expenses and research and development expenses are further analysed as follows:

| | Six months ended June 30, | |
|--|-------------------------------------|-----------------------------------|
| | 2022 <i>RMB'000</i> Unaudited | 2021 <i>RMB'000</i> Audited |
| Employee benefits expenses | 299,619 | 330,022 |
| Promotion and marketing related expenses | 240,915 | 389,436 |
| Depreciation of right-of-use assets | 57,150 | 52,949 |
| Depreciation of property, plant and equipment | 49,642 | 43,812 |
| Cost of inventories and consumables | 44,440 | 46,307 |
| Utilities, maintenance fee and office expenses | 24,381 | 23,176 |
| Taxes and surcharges | 14,668 | 19,732 |
| Travelling and entertainment expenses | 13,755 | 18,568 |
| Rental expenses for short-term leases | 9,120 | 6,076 |
| Technical fee | 4,407 | 2,909 |
| Consulting service fee | 2,537 | 1,168 |
| Amortisation of intangible assets | 2,091 | 306 |
| Auditors' remuneration | 1,050 | 1,186 |
| Listing expenses | – | 7,545 |
| Other expenses | 13,776 | 10,031 |
| | <u>777,551</u> | <u>953,223</u> |

6. FINANCE INCOME/(COSTS) – NET

| | Six months ended June 30, | |
|---|-------------------------------------|-----------------------------------|
| | 2022 <i>RMB'000</i> Unaudited | 2021 <i>RMB'000</i> Audited |
| Finance income | | |
| Foreign exchange gains | 59,841 | – |
| Interest income on bank deposits | 4,054 | 2,408 |
| | <u>63,895</u> | <u>2,408</u> |
| Finance costs | | |
| Interest expenses on bank borrowings | (1,215) | (1,150) |
| Interest expenses for lease liabilities | (25,985) | (21,528) |
| | <u>(27,200)</u> | <u>(22,678)</u> |
| Finance income/(costs) – net | <u>36,695</u> | <u>(20,270)</u> |

7. INCOME TAX EXPENSES

| | Six months ended June 30, | |
|---------------------|---------------------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | Unaudited | Audited |
| Current income tax | 9,972 | 52,197 |
| Deferred income tax | (14,327) | (3,763) |
| | <hr/> | <hr/> |
| Income tax expense | (4,355) | 48,434 |
| | <hr/> <hr/> | <hr/> <hr/> |

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.

British Virgin Islands

Under the current laws of the British Virgin Islands, the subsidiaries incorporated in British Virgin Islands are not subject to income tax.

Hong Kong Profits Tax

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.

PRC Enterprise Income Tax

The income tax expenses consist of current and deferred income taxes payable in the PRC by the subsidiaries. Income tax provision in respect of the 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.

On December 17, 2021, Beijing Yonghe Medical Investment Management Company Limited (“Yonghe Investment”) was qualified as “High and New Technology Enterprises” (“HNTEs”) and is entitled to the preferential income tax rate of 15%. This status is subject to a requirement that Yonghe Investment reapplies for HNTEs status every three years. In addition, certain of the 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, the 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.

8. 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 period, adjusted for bonus elements in ordinary shares issued during the period and excluding shares held for employee share scheme.

| | Six months ended June 30, | |
|---|----------------------------------|----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | Unaudited | Audited |
| Profit for the period attributable to equity holders of the Company | 17,629 | 40,441 |
| Less: undistributed earnings attributable to unvested restricted shares during vesting period | <u>(379)</u> | <u>(1,077)</u> |
| Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share | 17,250 | 39,364 |
| Weighted average number of ordinary equity shares in issue ('000) | 514,922 | 378,241 |
| Basic earnings per share for profit attributable to ordinary equity holders of the Company during the period (expressed in RMB per share) | <u>0.03</u> | <u>0.10</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:

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

| | Six months ended June 30, | |
|---|----------------------------------|-------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | Unaudited | Audited |
| Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share | 17,250 | 39,364 |
| Add: undistributed earnings attributable to unvested restricted shares during vesting period | 379 | 1,077 |
| | <hr/> | <hr/> |
| Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share | 17,629 | 40,441 |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share ('000) | 514,922 | 378,241 |
| Restricted shares | 11,958 | 47,139 |
| | <hr/> | <hr/> |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share ('000) | 526,880 | 425,380 |
| Diluted earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share) | 0.03 | 0.10 |
| | <hr/> <hr/> | <hr/> <hr/> |

9. DIVIDENDS

The final dividend of RMB0.076 per share in respect of the year ended December 31, 2021, amounting to RMB40.06 million in aggregate, was approved by the Company's shareholders in the annual general meeting on June 28, 2022, and subsequently will be paid in September 2022.

The Directors do not recommend the payment of an interim dividend for the current interim period (six months ended 30 June 2021: nil).

10. INVENTORIES

| | As at | As at |
|---|------------------|--------------|
| | June 30, | December 31, |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | Unaudited | Audited |
| Pharmaceuticals and medical consumables | 22,891 | 17,617 |
| Medical hair care consumables | 21,829 | 12,883 |
| Wash and hair care products | 17,252 | 16,894 |
| Others | 5,544 | 5,744 |
| | <hr/> | <hr/> |
| | 67,516 | 53,138 |
| Less: allowance for impairment of inventories | <hr/> <hr/> | <hr/> <hr/> |
| | 67,516 | 53,138 |
| | <hr/> <hr/> | <hr/> <hr/> |

11. TRADE RECEIVABLES

| | As at June 30, 2022 <i>RMB'000</i> Unaudited | As at December 31, 2021 <i>RMB'000</i> Audited |
|---|---|--|
| Trade receivables from contracts with customers | | |
| – Third parties | 3,732 | 13,489 |
| Less: allowance for impairment | <u>(32)</u> | <u>(138)</u> |
| | <u>3,700</u> | <u>13,351</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 ageing analysis of the trade receivables based on invoice date is as follows:

| | As at June 30, 2022 <i>RMB'000</i> Unaudited | As at December 31, 2021 <i>RMB'000</i> Audited |
|--------------------------------|---|--|
| Up to 3 months | 3,500 | 12,305 |
| 3 to 6 months | 172 | 1,184 |
| 6 months to 1 year | <u>60</u> | <u>–</u> |
| | 3,732 | 13,489 |
| Less: allowance for impairment | <u>(32)</u> | <u>(138)</u> |
| Total | <u>3,700</u> | <u>13,351</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.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at June 30, 2022 <i>RMB'000</i> Unaudited | As at December 31, 2021 <i>RMB'000</i> Audited |
|---|---|--|
| Included in current assets | | |
| Prepayments | | |
| Advertising and information technology services fee | 28,009 | 27,410 |
| Purchase of inventory | 24,915 | 8,240 |
| Rental and property management fees | 5,048 | 6,585 |
| Professional and agency service fees | 2,236 | 2,737 |
| Others | 6,924 | 5,861 |
| | <u>67,132</u> | <u>50,833</u> |
| Deductible input VAT | 3,037 | 7,683 |
| Other receivables | | |
| Deposits (a) | 52,625 | 52,809 |
| Cash advance to employees (b) | 2,686 | 649 |
| Others | 8,158 | 6,250 |
| | <u>63,469</u> | <u>59,708</u> |
| Less: provision for impairment of other receivables | <u>(2,282)</u> | <u>(2,266)</u> |
| | <u>61,187</u> | <u>57,442</u> |
| Subtotal | 131,356 | 115,958 |
| Included in non-current assets | | |
| Prepayments for property, plant and equipment | <u>6,328</u> | <u>1,508</u> |
| Total | <u>137,684</u> | <u>117,466</u> |

(a) Deposits consists primarily of security deposits for rental.

(b) Cash advance to employees are unsecured, interest-free and repayable on demand.

13. TRADE AND OTHER PAYABLES

| | As at June 30, 2022 <i>RMB'000</i> Unaudited | As at December 31, 2021 <i>RMB'000</i> Audited |
|--------------------------------|--|--|
| Accrued employee benefits | 58,693 | 83,712 |
| Trade payables | 27,963 | 36,059 |
| Tax payables | 16,622 | 20,722 |
| Refund liabilities (i) | 11,458 | 10,293 |
| Accrued expenses | 4,953 | 42,122 |
| Security deposit | 3,610 | 4,270 |
| Amounts due to related parties | – | 25,354 |
| Others | 1,801 | 3,176 |
| | <u>125,100</u> | <u>225,708</u> |

- (i) The Group has estimated the refund liabilities which is based on the Group's past experience with customers.
- (ii) The carrying amounts of trade and other payables are considered to be approximated to their fair values, due to their short-term nature.
- (iii) Aging analysis of the trade payables based on invoice date at the end of each reporting period are as follows:

| | As at June 30, 2022 <i>RMB'000</i> Unaudited | As at December 31, 2021 <i>RMB'000</i> Audited |
|--------------------|--|--|
| Up to 3 months | 23,458 | 29,120 |
| 3 to 6 months | 2,138 | 3,291 |
| 6 months to 1 year | 1,330 | 1,378 |
| 1 to 2 years | 1,020 | 1,961 |
| Over 2 years | 17 | 309 |
| | <u>27,963</u> | <u>36,059</u> |

14. CONTRACT LIABILITIES

| | As at June 30, 2022 <i>RMB'000</i> Unaudited | As at December 31, 2021 <i>RMB'000</i> Audited |
|-----------------------------|--|--|
| Contract liabilities | | |
| Medical hair care | 144,888 | 167,488 |
| Hair transplant | 12,546 | 12,268 |
| Others | 10,245 | 9,768 |
| | <u>167,679</u> | <u>189,524</u> |

The Group classifies these contract liabilities as current because the Group does not have an unconditional right to defer for at least 12 months after the reporting period.

(i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

| | Six months ended June 30, | |
|-------------------|----------------------------------|-----------------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Hair transplant | 4,587 | 3,935 |
| Medical hair care | 86,979 | 64,902 |
| Others | 2,429 | 2,434 |
| | <hr/> | <hr/> |
| | 93,995 | 71,271 |
| | <hr/> <hr/> | <hr/> <hr/> |

(ii) Unsatisfied contracts

Management expects that the amount of approximately RMB86 million of the transaction to unsatisfied obligations as at June 30, 2022 (December 31, 2021: approximately RMB97 million) will be recognised as revenue within next one year. The remaining will be recognised in more than one year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As the leading medical group in China specializing in providing hair-related healthcare services, we offer one-stop hair-related healthcare services covering hair transplant, medical hair care, routine hair restoration and other ancillary services. Having focused on the hair-related healthcare service market, we have built a brand matrix for the full industry chain which is centered on our “Yonghe Medical” (雍禾醫療) and strengthened by “Yonghe Hair Transplant” (雍禾植髮) for our professional hair transplant services, “Svenson” (史雲遜) for our medical hair care services, “Yonghe Fa Zhi Chu” (雍禾髮之初) for our female aesthetic hair transplant services, and “Harvard” (哈髮達) for our medical wig products.

As at June 30, 2022, we operated 57 clinics under the brands of Yonghe Hair Transplant/Fa Zhi Chu Female Hair Transplant in 56 cities nationwide, and 5 stores of Svenson Medical Hair Care in Beijing, Shanghai, Guangzhou and Shenzhen, making us the largest and most extensive hair transplant clinic chain in China.

The following table sets forth the number of our hair transplant clinics by city tier* as at June 30, 2022:

| | Six months ended June 30, | |
|---------------------|---------------------------|-----------|
| | 2022 | 2021 |
| Tier-one cities | 4 | 4 |
| New tier-one cities | 18 | 16 |
| Tier-two cities | 25 | 25 |
| Tier-three cities | 9 | 6 |
| Hong Kong | 1 | 1 |
| Total | 57 | 52 |

* *Note: Since the list of city rankings varies in different years, the figures set forth in this table are based on the list released for the corresponding periods.*

We have established an extensive network of clinics across China which creates favourable organic synergies between our hair transplant services and medical hair care services. Although our industry was hard hit by the COVID-19 pandemic and certain of our clinics experienced temporary closures or limitation on customer flow due to the pandemic prevention and control measures during the Reporting Period, the Group managed to record a revenue of RMB748.1 million and a gross profit of RMB480.5 million for the six months ended June 30, 2022, generating a gross profit margin of 64.2%.

The following table sets forth a breakdown of our revenue composition, gross profit and gross profit margin by service type for the periods indicated :

| | Six months ended June 30, | | | | | | | |
|----------------------------|---------------------------|------------|----------------------------|----------------------------|------------------|------------|----------------------------|----------------------------|
| | 2022 | | <i>Gross profit margin</i> | | 2021 | | <i>Gross profit margin</i> | |
| | <i>RMB'000</i> | % | <i>Gross profit</i> | <i>Gross profit margin</i> | <i>RMB'000</i> | % | <i>Gross profit</i> | <i>Gross profit margin</i> |
| Hair transplant services | 553,144 | 73.9 | 356,473 | 64.4 | 789,522 | 75.0 | 572,306 | 72.5 |
| Medical hair care services | 187,628 | 25.1 | 122,023 | 65.0 | 254,189 | 24.1 | 197,817 | 77.8 |
| Others | 7,365 | 1.0 | 2,000 | 27.2 | 9,689 | 0.9 | 5,294 | 54.6 |
| | <u>748,137</u> | <u>100</u> | <u>480,496</u> | <u>64.2</u> | <u>1,053,400</u> | <u>100</u> | <u>775,417</u> | <u>73.6</u> |

Hair transplant services

For the six months ended June 30, 2022, our revenue from hair transplant services amounted to RMB553.1 million, accounting for 73.9% of our total revenue. We have always been committed to providing professional and high-quality hair transplant services to patients. In February 2022, we launched our physicians' value-based pricing mechanism as an embodiment of our original intention of "more integrity and less sugarcoating" and our philosophy of "outstanding hair transplant depends on professional physicians", to further boost patients' confidence in our "Yonghe Hair Transplant" brand. For the six months ended June 30, 2022, the number of patients who underwent our hair transplant surgery was 21,021.

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

| | Unaudited | |
|--|--------------------------------|--------|
| | Six months ended June 30, 2022 | 2021 |
| Number of patients who received our hair transplant services | 21,021 | 29,480 |
| Average spending per hair transplant patient (<i>RMB</i>) | 26,314 | 26,782 |
| Three levels of services (before the launch of our new pricing mechanism) | | |
| Number of patients who received our basic-level services | 6,154 | 27,254 |
| Number of patients who received our premium-level services | 478 | 2,088 |
| Number of patients who received our "Yongxiang" (雍享) services | 42 | 138 |
| Four levels of services (under our new pricing mechanism) | | |
| Number patients who received services from our business chiefs | 10,527 | / |
| Number of patients who received services from our business deans | 3,426 | / |
| Number of patients who received services from our Yongxiang chiefs | 311 | / |
| Number of patients who received services from our Yongxiang deans | 83 | / |

Medical hair care services

For the six months ended June 30, 2022, our revenue from medical hair care services amounted to RMB187.6 million, accounting for 25.1% of our total revenue. As a first mover in China's medical hair care industry, we have provided professional and customized diagnosis and hair care services to our patients through Svenson Medical Hair Care Centers (史雲遜醫學健髮中心) in our hair transplant clinics under the "shop-in-shop" model. By continuously improving our service quality and treatment efficacy, we strengthened our brand loyalty with patients and further increased the repurchase rate of our medical hair care services. For the six months ended June 30, 2022, the number of patients who received our medical hair care services was 38,440.

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

| | Six months ended June 30, | |
|--|---------------------------|--------|
| | 2022 | 2021 |
| Number of patients who received our medical hair care services | 38,440 | 52,633 |
| Average spending per medical hair care patients (RMB) | 4,886 | 4,829 |
| Repurchase rate* (%) | 25.5% | 22.2% |

* *Note: Calculated by the number of patients who purchased our medical hair care services more than once during the period, 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

Our leading operational capability enables us to effectively control our costs and enhance our operational efficiency and profitability. Our business model is highly scalable, which not only benefits us to achieve rapid geographical expansion but also promotes efficient enrichment of our service offerings and service modes. During the Reporting Period, we opened i) three Yonghe Hair Transplant clinics in Shantou, Zhangzhou and Yantai, respectively; ii) one Fa Zhi Chu Female Hair Transplant clinic in Hangzhou; and iii) two Svenson clinics in Shenzhen and Guangzhou, respectively.

The following table sets forth a breakdown of the number of our hair transplant clinics by development stage* for the periods indicated:

| | Six months ended June 30, | |
|---------------------------|---------------------------|-----------|
| | 2022 | 2021 |
| Mature-stage clinics | 34 | 24 |
| Developing-stage clinics | 17 | 17 |
| Newly-established clinics | 6 | 11 |
| Total | 57 | 52 |

* *Note: We categorize our clinics based on three development stages, namely mature clinics, being those that have been established for more than three years; developing-stage clinics, being those that have been established for one to three years; and newly-established clinics, being those that have been established for less than one year. For acquired clinics, we regard the dates when their financial position and results of operations are consolidated into the Group as their respective opening dates.*

We have always upheld our fundamental principle and original intention of healthcare and implemented the value of integrity and transparency in healthcare. During the Reporting Period, we continued to accelerate the promotion and implementation of the physician consultation system in all clinics, and develop the “physician-medical assistant collaborative system” under which physicians and medical assistants collaborate with each other for delivering quality services to patients, with aims to further lead the hair transplant industry towards a more regulated, standardized and refined future, and enhance patients’ experience, recognition and confidence with hair transplant clinic chains. As at June 30, 2022, all of our clinics operating in mainland China adopted the physician consultation service.

Sincere physicians are rewarded by patients with trust. In February 2022, we also introduced a physicians’ value-based hierarchical diagnosis and treatment system for hair transplant physicians. Unlike the physicians’ title system adopted in public hospitals, our system is an integrated, multi-dimensional, stereoscopic and dynamic evaluation system summing up the characteristics and properties of the hair transplant industry, with the core of evaluating and grading our professional hair transplant physicians in a scientific manner from different perspectives such as academic skills, surgical and clinical experience and customized design standards. The system is designed to enable us to establish a clearly-structured and easily identifiable echelon of professionals, and further improve the teaching and learning, competition and job promotion systems and paths for our physicians, forming a complete closed loop for service rendering and management.

As at June 30, 2022, the Group has built a professional medical team consisting of 1,198 members:

| | As at June 30, 2022 |
|---|----------------------------|
| Our professional team | 1,198 |
| – Physicians | 291 |
| – Nurses | 844 |
| – Other medical professionals (including pharmacists and clinical scientists) | 63 |

Pursuing refined marketing strategy for brand value enhancement

We believe that our brand is the soul of our existence and development. Therefore, our brand and our brand strategy have become one of the keys to enhance our market competitiveness in consumer healthcare industry, especially the hair-related healthcare industry. During the Reporting Period, we recruited a number of high-caliber senior executives who have experience in successful chain brand operation. By formulating a multi-pronged marketing strategy, we further increased our brand awareness and customer stickiness and solidified our brand moat.

In view of the industry developments relating to the exponential growth of female customer base, the downward trend in the age of customers suffering from alopecia and the rising concerns over hair health among customers, we also formulated our brand content marketing strategy focusing on our female business and medical hair care business, in order to improve brand influence of our Fa Zhi Chu female brand and our Svenson medical hair care brand in market segments.

We believe that our brand reputation has been and will continue to be founded on our high standards of service quality. As such, the most effective channel of marketing is the heartfelt word-of-mouth referrals from our satisfied customers. During the Reporting Period, we recorded a continued increase in the patient referral rate.

Promoting technological development

Digital technology innovation and application are important means for increasing our operational efficiency and improving patients' experience. We adopt industry-leading technology to expand customer base, enhance patients' experience, increase operational efficiency and reduce costs. During the Reporting Period, we developed and launched an integrated consultation management system for the purpose of further improving physicians' efficiency in consultation and strengthening our delivery of digital diagnosis and treatment services. Meanwhile, we completed the first phase of research and development of smart hair loss area measuring software, which measures hair loss area by photo taking. This software will enhance patients' consultation experience and the professionalism of our healthcare services.

Pandemic impacts

In the first half of 2022, mutated COVID-19 viruses spread rampantly in a number of provinces of China, which had certain impact on our business operation. More than 30 clinics of the Group temporarily suspended/limited operation in compliance with the pandemic prevention measures implemented by government authorities, including the operation of the Group's top four clinics in terms of revenue contribution (located in Beijing, Shanghai, Shenzhen and Guangzhou, respectively) and some of the relatively profitable clinics in new tier-one/tier-two cities, which are located in the cities where the pandemic was severe in the first half of the year. Therefore, our revenue for the first half of 2022 was adversely affected by the unstable pandemic situation to a certain extent.

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

The hair-related healthcare market is in a stage of rapid development with huge unmet market demand and enormous growth potential. According to Frost & Sullivan, the size of the hair-related healthcare service market in China reached RMB18.4 billion in 2020, and is projected at RMB138.1 billion in 2030 with a CAGR of 22.3%. In the first half of 2022, the total number of patients receiving our treatments reached 58,988. We expect that there will be an increasing number of patients in demand of alopecia treatment and medical hair care services. 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 great opportunities in this fast-growing market.

Continue the expansion and upgrade of our clinic network

- *Hair transplant clinics*

We will continue to accelerate the process of opening our new clinics. To this end, we will pursue our strategy of penetrating into lower-tier cities for broader geographical coverage of our clinic network and densifying our presence in tier-one and new tier-one cities for a deeper layout by adopting a business model of "multiple clinics in one city". We will also improve our presence by opening Fa Zhi Chu female hair transplant clinics in selected regions to provide customized hair transplant services to our female aesthetic hair transplant consumers. We expect to have nearly 70 hair transplant clinics in China by the end of 2022.

- *Svenson medical hair care centers*

We will continue to put great efforts in strategically developing our medical hair care business, and seek continuous enrichment of its application scenarios, products and services. With focus on executing the strategy for the business development of Svenson in Guangdong Province, during the first half of the year, we completed the construction of nine stand-alone Svenson stores (two of which have commenced operation), with another four stand-alone Svenson stores under construction. The construction and operation of the Svenson stores will help us continuously expand our market share and maintain our leading position in the medical hair care industry.

- *Comprehensive hair hospitals*

We will soon commence the operation of our two comprehensive hair hospitals in Beijing and Shanghai, which are currently under construction, after the construction is completed within this year. 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.

Adhere to technology-oriented operation by promoting digital and smart services

Technology-oriented operation represents a unique advantage that differentiates us from other hair-related healthcare service providers, enables us to further improve patients' experience, attract more patients and reinforce patients' loyalty, which will, in turn, promote our brand development, solidify our market dominance, and boost our sustainable future growth. In the future, we will continue to upgrade our digital and smart business operation ecosystem in three particular areas.

- We will develop a Yonghe digital marketing platform, on which we will carry out full-link data mining and analysis about customer services to realize precise customer acquisition and efficient conversion at a lower marketing costs;
- We will develop a Yonghe digital service platform, on which internet hospitals will be set up to strengthen our capabilities in serving our customers online, achieve a higher standard of digital and smart diagnosis, treatment and service process in clinics, and further increase patients' satisfaction and operating manpower efficiency in clinics; and
- We will develop a Yonghe digital collaborative operation platform, on which the business collaboration process systems in respect of supply chain, finance, medical services and manpower will be integrated and centralized through digitalization, so as to substantially increase the operating manpower efficiency in functional organizations.

Launch a healthcare strengthening program in line with national policy directives

In close response to the national policy directives and future trends, we have pioneered in the consultation integration reform, facilitating customer development in the private medical institutions and creating channels for physicians to provide professional services directly, and enabling outpatient physicians and surgeons to be equipped with multiple skills while being professionally competent through integrated training and function sharing. In order to build a stronger medical team, the Group will launch a healthcare strengthening program in the second half of the year. The healthcare strengthening program will mainly focus on strengthening the ability of our physician team in technology realization, enhancing the capability of hair-related diseases diagnosis, emphasizing the value of physicians themselves, and organizing academic conferences that cover a broad-spectrum and multi-level of physicians. We will promote a number of hair transplant technologies such as shaved hair transplant, short hair transplant and long hair transplant as common procedures among our medical team based on market demand and application scenarios to achieve compound and diversified applications of hair transplant technology. In addressing the five technical challenges including prolonged surgical duration, pain during surgery, post-surgery infections, telogen phase, and aesthetic hair transplant, we will work on research and development and innovation activities to tackle the challenges with diverse solutions. We will also provide additional inputs in psychological counselling and caring for our patients throughout the entire surgical procedures as well as post-surgery follow-ups with physicians and surgery quality management, with an aim to achieve a continuous quality improvement across our service offerings.

FINANCIAL REVIEW

Revenue

For the six months ended June 30, 2022, our total revenue was RMB748.1 million, representing a decrease of 29.0% as compared with RMB1,053.4 million for the six months ended June 30, 2021. 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:

| | Six months ended June 30, | | | |
|---------------------------|----------------------------------|-------------------|-------------------------|-------------------|
| | 2022 | | 2021 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Hair transplant service | 553,144 | 73.9 | 789,522 | 75.0 |
| Medical hair care service | 187,628 | 25.1 | 254,189 | 24.1 |
| Others | 7,365 | 1.0 | 9,689 | 0.9 |
| | <u>748,137</u> | <u>100</u> | <u>1,053,400</u> | <u>100</u> |

Revenue from hair transplant service

The Group's revenue from hair transplant services was RMB553.1 million for the six months ended June 30, 2022 (the same period in 2021: RMB789.5 million).

Revenue from medical hair care service

The Group's revenue from medical hair care services was RMB187.6 million for the six months ended June 30, 2022 (the same period in 2021: RMB254.2 million).

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 RMB7.4 million for the six months ended June 30, 2022 (the same period in 2021: RMB9.7 million).

Such decreases in revenue from hair transplant service, medical hair care service and other services above were mainly due to the resurgence of COVID-19 pandemic in mainland China in the first half of 2022. During the Reporting Period, the operation of more than 30 clinics of the Group was suspended/restricted to comply with the pandemic prevention measures implemented by government authorities, which resulted in a decreased number of our patients. For the six months ended June 30, 2022, we served a total of approximately 59.0 thousand patients, representing a decrease of 23.3% as compared with approximately 76.9 thousand patients over the same period in 2021.

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:

| | Six months ended June 30, | | | |
|---------------------------------------|----------------------------------|-------------------|-----------------------|-------------------|
| | 2022 | | 2021 | |
| | RMB'000 | % | RMB'000 | % |
| Staff costs | 108,462 | 40.5 | 116,881 | 42.0 |
| Amortization and depreciation charges | 93,986 | 35.1 | 86,802 | 31.2 |
| Cost of inventories and consumables | 44,440 | 16.6 | 46,307 | 16.7 |
| Operation related expenses | 14,402 | 5.4 | 12,387 | 4.5 |
| Other expenses | 6,351 | 2.4 | 15,606 | 5.6 |
| | <u>267,641</u> | <u>100</u> | <u>277,983</u> | <u>100</u> |

For the six months ended June 30, 2022, the Group incurred costs of RMB267.6 million (the same period in 2021: RMB278.0 million), representing a decrease of 3.7% over the same period in 2021. In particular, staff costs represent the salaries, wages and bonuses paid to physicians, nurses and other professionals, the decrease in which was primarily attributable to the reduction of number of surgeries affected by COVID-19 pandemic which is led to a decline of variable cost to physicians, nurses and other professionals. 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 decrease in cost of inventories and consumables was consistent with the decline of revenue trend. 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

For the six months ended June 30, 2022, the Group recorded a gross profit of RMB480.5 million (the same period in 2021: RMB775.4 million). Our gross profit margin was 64.2% (the same period in 2021: 73.6%). Such decline in gross profit margin was primarily attributable to the resurgence of COVID-19 pandemic, however, those clinics still incurred fixed operating costs such as rental and employees' remuneration.

Other income

The Group's other income mainly consists of government grants and additional value-added tax credit. During the six months ended June 30, 2022, the Group had other income of RMB7.8 million (the same period in 2021: RMB2.1 million). The increase in which was primarily attributable to receive the listing reward from government in the first half of 2022.

General and administrative expenses

For the six months ended June 30, 2022, the Group incurred general and administrative expenses of RMB113.0 million (the same period in 2021: RMB91.1 million).

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

| | Six months ended June 30, | | | |
|--|---------------------------|---------------------|----------------------|---------------------|
| | 2022 | | 2021 | |
| | <i>RMB'000</i> | <i>%</i> | <i>RMB'000</i> | <i>%</i> |
| Staff costs | 68,937 | 61.0 | 55,166 | 60.5 |
| Operation related expenses | 10,925 | 9.7 | 6,998 | 7.7 |
| Professional and consulting service fees | 6,069 | 5.4 | 3,168 | 3.5 |
| Amortization and depreciation charges | 7,078 | 6.3 | 3,358 | 3.7 |
| Travelling and entertainment expenses | 4,296 | 3.8 | 2,730 | 3.0 |
| Listing expenses | – | 0.0 | 8,601 | 9.4 |
| Others | 15,728 | 13.8 | 11,121 | 12.2 |
| | <u>113,033</u> | <u>100.0</u> | <u>91,142</u> | <u>100.0</u> |

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 increase in administrative expenses in the first half of the year over the same period of the previous year was attributable to the corresponding increase in administrative expenses as a result of the expansion of the Company's management team and the adjustment to the structure of staff positions.

Selling and marketing expenses

During the six months ended June 30, 2022, the Group incurred selling and marketing expenses of RMB388.2 million (the same period in 2021: RMB577.9 million).

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

| | Six months ended June 30, | | | |
|---------------------------------------|---------------------------|---------------------|-----------------------|---------------------|
| | 2022 | | 2021 | |
| | <i>RMB'000</i> | <i>%</i> | <i>RMB'000</i> | <i>%</i> |
| Marketing and promotion expenses | 240,915 | 62.1 | 389,436 | 67.4 |
| Staff costs | 116,213 | 29.9 | 153,295 | 26.5 |
| Travelling expenses | 9,435 | 2.4 | 15,807 | 2.7 |
| Operation related expenses | 7,726 | 2.0 | 9,596 | 1.7 |
| Amortization and depreciation charges | 7,605 | 2.0 | 6,826 | 1.2 |
| Others | 6,352 | 1.6 | 2,987 | 0.5 |
| | <u>388,246</u> | <u>100.0</u> | <u>577,947</u> | <u>100.0</u> |

Our selling and marketing expenses primarily consist of marketing and promotion expenses, staff costs, etc. The decline in selling expenses was due to the Group's strengthened control over selling expenses amid the COVID-19 pandemic.

Income tax expenses

During the six months ended June 30, 2022, the Group's income tax expenses decreased by 109.0% to RMB negative 4.4 million from RMB48.4 million for the six months ended June 30, 2021. Such decrease in income tax was primarily attributable to accrue deferred tax due to the loss of some branches in the first half of the year affected by COVID-19 pandemic

Net profit and net profit margin

In light of the foregoing, the Group's net profit decreased from RMB17.6 million for the six months ended June 30, 2022 to RMB40.4 million for the six months ended June 30, 2021. The Group's net profit margin dropped from 3.8% for the six months ended June 30, 2021 to 2.4% for the six months ended June 30, 2022.

Inventories

As at June 30, 2022, the Group had inventories of RMB67.5 million (December 31, 2021: RMB53.1 million). As the Group still plans to maintain a relatively fast expansion rate in the future, and to avoid an extension of logistics and consumables production cycles, the Group stocked up its inventories, which resulted in an increase in inventories over that as at June 30, 2021.

Trade and other payables

As at June 30, 2022, the Group had trade and other payables of RMB125.1 million (December 31, 2021: RMB225.7 million). Such decrease was primarily attributable to the decrease in amounts due to related parties as we have fully settled the payments for the acquisition of Nu/Hart Hair, the decrease in accrued expenses due to the absence in the current period of the unpaid listing fees and expenses provided for as at the end of the previous year, as well as the decrease in accrued employee remuneration of physicians, nurses and other professionals due to the COVID-19 pandemic.

Cash and cash equivalents

As at June 30, 2022, the Group had cash and cash equivalents of RMB1,398.2 million (December 31, 2021: RMB1,566.2 million).

Cash flows

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

| | Six months ended June 30, | |
|--|----------------------------------|-----------------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Net cash (used in)/generated from operating activities | (80,003) | 218,314 |
| Net cash used in investing activities | (100,207) | (97,174) |
| Net cash (used in)/generated from financing activities | (47,267) | 38,341 |
| Cash and cash equivalents at beginning of the period | 1,566,192 | 292,856 |
| Cash and cash equivalents at end of the period | 1,398,228 | 453,100 |

Liquidity and capital resources

As at June 30, 2022, cash and cash equivalents of the Group amounted to RMB1,398.2 million (December 31, 2021: RMB1,566.2 million). As at June 30, 2022, total bank borrowings of the Group amounted to RMB65.4 million (December 31, 2021: RMB74.2 million).

Taking into account the capital generated internally, the banking credit available to the Group and the net current assets of approximately RMB1,076.0 million as at June 30, 2022, the Directors believe that the Group has sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

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:

| | Six months ended June 30, | |
|--|---------------------------|----------------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Payments for property, plant and equipment | 98,640 | 92,462 |
| Payments for intangible assets | 2,523 | 992 |
| | <u>101,163</u> | <u>93,454</u> |

During the six months ended June 30, 2022, the Group incurred capital expenditures of RMB101.2 million (same period in 2021: RMB93.5 million). Such increase in capital expenditures was driven by the business expansion of the Group.

Capital structure

The Group's operations were financed mainly by shareholders' equity, banking borrowings and internal resources. The Group will continue to adopt its treasury policy of placing its cash and cash equivalents as interest-bearing deposits.

The Group's cash and cash equivalents were mainly denominated in Renminbi, HK dollars and U.S. dollars. The Group's bank borrowings denominated in Renminbi as at June 30, 2022 amounted to approximately RMB65.3 million.

As at June 30, 2022, the Group's borrowings with fixed interest rates accounted for 100.0% of total borrowings.

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 periods indicated:

| | June 30, 2022 RMB'000 Unaudited | December 31, 2021 RMB'000 Audited |
|--|--|--|
| Current | | |
| Bank borrowings | 65,430 | 74,173 |
| Amounts due to related parties (non-trade) | – | 25,354 |
| Lease liabilities | 149,288 | 185,055 |
| Non-current | | |
| Lease liabilities | 799,292 | 762,303 |
| Total | <u><u>1,014,010</u></u> | <u><u>1,046,855</u></u> |

Bank borrowings

As at June 30, 2022, the Group had outstanding interest-bearing bank borrowings of RMB65.4 million (December 31, 2021: RMB74.1 million). Our bank loans bear interest at rates ranging from 3.85% to 4.9% per annum.

Amounts due to related parties (Non-trade)

As at June 30, 2022, the Group had no amounts due to related parties (non-trade) (December 31, 2021: RMB25.4 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 Hair, which was settled in full by the Group during the Reporting Period.

Lease liabilities

We recognize a lease liability with respect to all leases, except for short-term leases and leases of low value assets. As at June 30, 2022, the Group (as lessee) had total lease liabilities of RMB948.6 million, which were unsettled for the remaining terms of the relevant lease agreements.

Future plan for material investments and capital assets

The Group did not have any future plan for material investments and capital assets.

Material acquisitions and disposals

During the six months ended June 30, 2022, the Group did not make any material acquisitions or disposals of subsidiaries, associates and joint ventures.

As at June 30, 2022, the Group did not hold any significant investments in the equity interests of any other companies.

Charge of assets

There was no charge on the Group's assets as at June 30, 2022.

Gearing ratio

Gearing ratio is calculated using bank loans and other borrowings divided by total equity as at the end of such periods and multiplied by 100%. As at June 30, 2022, the Group's gearing ratio was 3.6% (December 31, 2021: 4.4%).

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. We monitor foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

Contingent liabilities

As at June 30, 2022, the Group did not have any material contingent liabilities (December 31, 2021: nil).

EMPLOYEES AND REMUNERATION POLICY

As at June 30, 2022, the Group had a total of 3,561 employees, among which, 1,198 employees are our professional medical team members. Staff costs were RMB299.6 million for the six months ended June 30, 2022, as compared to RMB330.0 million for the six months ended June 30, 2021.

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.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2022 (for the six months ended June 30, 2021: nil).

COMPLIANCE WITH THE CG CODE

The Company is committed to achieving high standards of corporate governance to safeguard the interests of its shareholders and to enhance its corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules. The Company regularly reviews its corporate governance practices to ensure compliance with the CG Code. The Board is of the view that during the six months ended June 30, 2022, the Company has applied 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. Code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, Mr. ZHANG Yu is the chairman and chief executive officer of the Company ("**Chief Executive Officer**"). 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 three executive Directors (including Mr. ZHANG Yu), one non-executive Director and three independent non-executive Directors, and therefore has a strong independent element in its composition.

During the six months ended June 30, 2022, the positions of Chairman and Chief Executive Officer are held by Mr. ZHANG Yu. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly established and set out in writing.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for dealings in securities of the Company by the Directors.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the six months ended June 30, 2022.

SUBSEQUENT EVENTS

2022 Restricted Share Units Scheme

The Company adopted the 2022 Restricted Share Units Scheme (the "**Scheme**") on July 26, 2022 (the "**Adoption Date**"). Under the Scheme, with prior approval of the Board, the administrator appointed by the Board may choose any qualified employee of any member of the Group as the grantee (the "**Grantee**"). The purpose of the Scheme is to recognize and acknowledge the contributions that Grantees have made or may make to the Group, and to provide the Grantees with the opportunity to own a personal stake in the Company with a view to (i) motivate the Grantees; and/or (ii) attract and retain or otherwise maintain an on-going relationship with the Grantees whose contributions are, will be or are likely to be beneficial to the long-term growth of the Group. The Company has appointed Futu Trustee Limited as the trustee of the Scheme ("**Trustee**").

The Scheme will be valid and effective for a term of ten years after the Adoption Date, unless terminated earlier by the Board. Pursuant to the Scheme, the aggregate number of Shares under the Scheme available to be granted (i) shall not exceed 10% of the issued share capital of the Company; and (ii) shall be subject to an annual limitation within 2% of the issued share capital of the Company. To satisfy the Scheme, the Shares underlying the Scheme will be existing Shares to be purchased by the Trustee on the Stock Exchange or off the market.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company was successfully listed on the Stock Exchange on December 13, 2021. Subsequently the Company issued 7,124,500 Shares at HK\$15.8 per Share upon partial exercise of the over-allotment option on January 5, 2022.

The net proceeds from the global offering and partial exercise of the over-allotment option received by the Company, after deduction of the underwriting fees and commissions and other expenses payable by the Company in connection with the global offering, amounted to approximately HK\$1,526.2 million and the unutilized net proceeds were kept at the bank accounts of the Group as at June 30, 2022.

Details on the applications of the net proceeds from the Listing (adjusted on a pro rata bases based on the actual net proceeds) were disclosed in the Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to June 30, 2022 as well as the expected timeline for full utilisation:

| Use of proceeds | Planned applications HK\$ million | Percentage of total net proceeds % | Amount utilized as at June 30, 2022 HK\$ million | Amount unutilized as at June 30, 2022 HK\$ million | Expected timeline for full utilization ⁽ⁱ⁾ |
|--|--------------------------------------|---------------------------------------|---|---|---|
| To expand and upgrade existing hair transplant clinics in our network in China | 642.6 | 42.1 | 23.3 | 619.2 | By December 2025 |
| To fund our innovations in product and service offerings | 267.1 | 17.5 | 3.0 | 264.1 | By December 2025 |
| For investment in research and development to upgrade our service system with cutting-edge technology | 148.0 | 9.7 | 0.7 | 147.4 | N/A |
| To integrate industry resources to raise brand awareness in China | 357.1 | 23.4 | 0 | 357.1 | N/A |
| To settle the outstanding balance of the acquisition consideration payable for our acquisition of Nu/Hart Hair | 24.4 | 1.6 | 24.2 | 0.2 ⁽ⁱⁱ⁾ | N/A |
| For our working capital and general corporate purposes | 87.0 | 5.7 | 50.4 | 36.6 | N/A |
| Total | 1,526.2 | 100.0 | 101.6 | 1,424.6 | |

Note: (i) The expected timeline for the usage of the remaining proceeds is made based on the best estimate of the Group's future market conditions, which is subject to the current and future development of the market conditions.

(ii) The outstanding balance of the acquisition consideration payable for our acquisition of Nu/Hart Hair has been fully settled. The remaining unutilized amount will be used for our working capital and general corporate purposes.

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 six months ended June 30, 2022.

AUDIT COMMITTEE

The Board has established the audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the requirements under the Listing Rules. The Audit Committee consists of two independent non-executive Directors being Mr. CHAN Peng Kuan, Mr. LI Xiaopei and one non-executive Director being Mr. GENG Jiaqi. The chairman of the Audit Committee is Mr. CHAN Peng Kuan.

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

REVIEW OF INTERIM 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 unaudited consolidated financial statements of the Group for the six months ended June 30, 2022, which has been agreed by the independent auditors of the Company) of the Group. The Audit Committee and the independent auditors considered that the interim results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yonghegroup.cn), and the 2022 interim report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective website of the Stock Exchange and the Company in due course.

DEFINITIONS

| | |
|---|--|
| “ Board ” or “ Board of Directors ” | the board of directors of the Company |
| “ 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, for the purpose of this announcement, excluding Hong Kong, Macau 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” | 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 Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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 |
| “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 six months period from January 1, 2022 to June 30, 2022 |
| “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, August 29, 2022

As at the date of this announcement, the executive directors of the Company are Mr. ZHANG Yu, Mr. ZHANG Hui and Ms. HAN Zhimei; the non-executive director of the Company is Mr. GENG Jiaqi and the independent non-executive directors of the Company are Ms. LIANG Jihong, Mr. CHAN Peng Kuan and Mr. LI Xiaopei.