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Meihao Medical Group Co., Ltd

美皓醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1947)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 21.0% to approximately RMB127.4 million (FY2021: approximately RMB105.3 million)
- Profit before tax decreased by approximately 8.0% to approximately RMB40.2 million (FY2021: approximately RMB43.7 million)
- Profit attributable to equity holders of the Company decreased by approximately 11.2% to approximately RMB28.5 million (FY2021: RMB32.1 million)
- Adjusted net profit (excluding Listing expenses) increased by approximately 10.8% to approximately RMB38.1 million (FY2021: approximately RMB34.4 million)
- Earning per share attributable to ordinary equity holders of the parent decreased by approximately 12.8% to approximately RMB6.22 cents (FY2021: approximately RMB7.13 cents)
- The Board did not recommend the payment of a final dividend (FY2021: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Meihao Medical Group Co., Ltd (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2022 (the “**Year**”), together with the comparative figures for the year ended 31 December 2021.

In this announcement, “we,” “us” and “our” refer to the Company and where the context otherwise requires, the Group. Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as those defined in the prospectus of the Company dated 30 November 2022 (the “**Prospectus**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
REVENUE	5	127,408	105,315
Cost of sales		<u>(49,160)</u>	<u>(38,385)</u>
Gross profit		78,248	66,930
Other income and gains		9,895	1,662
Selling expenses		(18,166)	(5,119)
Administrative expenses		(27,042)	(17,485)
Other expenses		(874)	(161)
Impairment losses on financial assets, net		27	311
Finance costs		<u>(1,886)</u>	<u>(2,471)</u>
PROFIT BEFORE TAX	6	40,202	43,667
Income tax expense	7	<u>(11,632)</u>	<u>(11,490)</u>
PROFIT FOR THE YEAR		<u>28,570</u>	<u>32,177</u>
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the Company's financial statements into presentation currency		<u>(81)</u>	<u>—</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		<u>(81)</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>28,489</u>	<u>32,177</u>

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
Profit attributable to:			
Owners of the parent		28,456	32,069
Non-controlling interests		<u>114</u>	<u>108</u>
		<u>28,570</u>	<u>32,177</u>
Total comprehensive income attributable to:			
Owners of the parent		28,375	32,069
Non-controlling interests		<u>114</u>	<u>108</u>
		<u>28,489</u>	<u>32,177</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	<u>RMB6.22 cents</u>	<u>RMB7.13 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		28,076	27,679
Right-of-use assets		36,358	43,578
Intangible assets		528	531
Deferred tax assets		5,205	3,557
Prepayments, other receivables and other assets		6,044	3,088
Total non-current assets		76,211	78,433
CURRENT ASSETS			
Inventories		2,497	2,363
Trade receivables	<i>10</i>	523	600
Prepayments, other receivables and other assets		83,958	11,187
Cash and cash equivalents		89,529	41,283
Total current assets		176,507	55,433
CURRENT LIABILITIES			
Trade payables	<i>11</i>	5,475	5,717
Lease liabilities		6,898	9,376
Other payables and accruals		15,787	15,959
Contract liabilities		4,203	7,792
Tax payable		8,865	8,913
Total current liabilities		41,228	47,757
NET CURRENT ASSETS		135,279	7,676
TOTAL ASSETS LESS CURRENT LIABILITIES		211,490	86,109

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>211,490</u>	<u>86,109</u>
NON-CURRENT LIABILITIES		
Lease liabilities	29,718	35,163
Contract liabilities	<u>4,021</u>	<u>403</u>
Total non-current liabilities	<u>33,739</u>	<u>35,566</u>
Net assets	<u>177,751</u>	<u>50,543</u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	5,365	—
Reserves	<u>172,007</u>	<u>50,278</u>
	177,372	50,278
Non-controlling interests	<u>379</u>	<u>265</u>
Total equity	<u>177,751</u>	<u>50,543</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 18 November 2019. The registered office of the Company is located at 89 Nexus Way, Camana Bay, Grand Cayman KY1-9009, Cayman Islands. The Company changed its name from “China Dental Medical Group Co., Ltd” to “Meihao Medical Group Co., Ltd” effective from 18 October 2022. The principal place of business in China is located at 197 Fuqian Street, Lucheng District, Wenzhou City, Zhejiang Province, People’s Republic of China (the “PRC”).

The Company is an investment holding company. During the year, the Company’s subsidiaries were principally engaged in the provision of dental services.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 14 December 2022.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the “Conceptual Framework”) issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group’s financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their services and only has one reportable operating segment. Management monitors the operating results of the Group’s operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

All external revenue of the Group for the years ended 31 December 2022 and 2021 was attributable to customers in Mainland China, the place of domicile of the Group’s operating entities.

The Group’s non-current assets are all located in Mainland China.

Information about major customers

No revenue from the Group’s sales to a single customer amounted to 10% or more of the Group’s revenue during the year (2021: Nil).

5. REVENUE

An analysis of revenue is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from contracts with customers	<u>127,408</u>	<u>105,315</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information*

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Type of services		
Dental services	<u>127,408</u>	<u>105,315</u>
Geographical market		
Mainland China	<u>127,408</u>	<u>105,315</u>
Timing of revenue recognition		
Services transferred over time	<u>127,408</u>	<u>105,315</u>

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Rendering of dental services	<u>4,244</u>	<u>3,423</u>

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Provision of dental services

The performance obligation is satisfied over time when the services are rendered.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2022	2021
	RMB'000	RMB'000
Amounts expected to be recognised as revenue:		
Within one year	7,826	11,750
After one year	4,422	1,127
	<u>12,248</u>	<u>12,877</u>

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to dental services, of which the performance obligations are to be satisfied within five years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2022	2021
	RMB'000	RMB'000
Cost of inventories, consumables and customised products	15,204	11,201
Government grants	(8,210)	(147)
Listing expenses	9,494	2,217
Loss on disposal of items of property, plant and equipment, net	58	67

7. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Company and its subsidiary incorporated in the British Virgin Islands are not subject to any income tax in the Cayman Islands or the British Virgin Islands.

The statutory tax rate for the subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on the Group's subsidiary has been provided as there was no assessable profit arising in Hong Kong during the year (2021: Nil).

Except for certain subsidiaries of the Group which were entitled to a preferential income tax rate of 20% for small and micro enterprises during the year with the first RMB1.0 million of annual taxable income eligible for 87.5% reduction and the income between RMB1.0 million and RMB3.0 million eligible for 75% reduction, the provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of the subsidiaries of Mainland China as determined in accordance with the Corporate Income Tax Law.

The income tax expense of the Group during the year is analysed as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current — Mainland China		
Charge for the year	13,280	12,354
Deferred tax	<u>(1,648)</u>	<u>(864)</u>
Total tax charge for the year	<u><u>11,632</u></u>	<u><u>11,490</u></u>

8. DIVIDENDS

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 457,397,260 (2021:450,000,000) in issue during the year, on the assumption that the capitalisation issue had been completed on 1 January 2021.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

The calculation of basic earnings per share is based on:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent	<u><u>28,456</u></u>	<u><u>32,069</u></u>
	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year	<u><u>457,397,260</u></u>	<u><u>450,000,000</u></u>

10. TRADE RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	526	630
Impairment	<u>(3)</u>	<u>(30)</u>
	<u><u>523</u></u>	<u><u>600</u></u>

The trade receivables are due when services are rendered and goods are sold. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the transaction dates and net of loss allowance, is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	413	502
3 and 6 months	52	38
6 and 12 months	40	23
1 and 2 years	16	26
Over 2 years	<u>2</u>	<u>11</u>
	<u>523</u>	<u>600</u>

11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	2,569	3,666
3 to 6 months	1,385	663
6 to 12 months	554	300
Over 1 year	<u>967</u>	<u>1,088</u>
	<u>5,475</u>	<u>5,717</u>

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 180 days.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an established private dental service provider in Wenzhou City (溫州市), Zhejiang Province, PRC (“Wenzhou”). The Group generates its revenue primarily from providing comprehensive dental services to individuals, covering primarily four dental sectors namely, general dentistry (口腔綜合治療科), reparative dentistry (口腔修復科), implant dentistry (種植牙科) and orthodontics and cosmetic dentistry (牙齒正畸科). As at 31 December 2022, the Group owned and operated a network of five private dental hospitals in Wenzhou, namely Wenzhou Hospital, Lucheng Hospital and Wenzhou Oral Care in Wenzhou City Area, Rui’an Branch Hospital in Rui’an City and Longgang Hospital in Longgang City.

While the listing (the “**Listing**”) of the shares of the Company on the Stock Exchange on 14 December 2022 (the “**Listing Date**”) marked a milestone to the Group’s business development, the COVID-19 pandemic in the world continued to develop a pessimistic sentiment for the year of 2022. In China, the economic growth had slumped due to the resurgence of regional outbreak of COVID-19 and strict travel and quarantine measures in response to the COVID-19 pandemic in 2022. As an established private dental service provider in Wenzhou, the Group has taken cautious epidemic prevention approach and formed a pandemic control working group and adopted various additional precautionary measures to maintain a safe and hygienic environment of our private dental hospitals, and the business operation of the Group was slightly affected adversely, yet the Group managed to increase the revenue and profitability (excluding Listing expenses). The gross domestic product of Wenzhou exceeded RMB800 billion in 2022, representing a mild increase of approximately 3.7% only as compared to the year of 2021, and the business performance of the Group in 2022 was generally in line with the general market conditions during the year.

For the year ended 31 December 2022, the Group has recorded revenue of approximately RMB127.4 million. The Group recorded a net profit of approximately RMB28.6 million for the year ended 31 December 2022, representing a decrease of approximately 11.2% (2021: RMB32.2 million). The decrease in net profit was mainly attributable to the increase in (i) selling expenses and (ii) administrative expenses as a result of the increase of Listing expenses and partially net off by (iii) the increase in gross profit.

General Dentistry

The general dentistry sector of the Group focuses on the examination, diagnosis, prevention and treatment of disorders of the orofacial region. The key dental services we offered under general dentistry includes (i) teeth filling; and (ii) root canal treatment. The treatments are priced based on the number of tooth subject to the treatment, the spending of each patient will vary significantly with the condition of each patient.

Orthodontics and Cosmetic Dentistry

The orthodontics and cosmetic dentistry sector of the Group focuses on diagnosis, prevention, interception, and correction of misalignment or incorrect relation between the teeth as well as skeletal abnormalities of developing or mature orofacial structures by different types of braces. The key dental services we offered under orthodontics and cosmetic dentistry include teeth orthodontics using (i) standard metal braces or metal wires; (ii) clear braces or ceramic braces; and (iii) transparent dental braces made of intelligent materials.

Reparative Dentistry

The reparative dentistry sector of the Group focuses on restoring the function, integrity and morphology of missing tooth structure. The key dental services we offered under reparative dentistry includes: (i) dental crowns; and (ii) removable dentures. The price for dental crowns and removable dentures are generally related to the respective material and number of tooth subject.

Implant Dentistry

The implant dentistry sector of the Group focuses on surgically placing fixture dental implants in the patient's jawbone as the foundation to replace the damaged or missing tooth with prosthetics.

Number of Patients by Five Private Dental Hospitals

The number of the Group's total active patients increased from 61,910 for the year ended 31 December 2021 to 63,659 for the year ended 31 December 2022, representing an increase of 2.83%. The following table sets forth the breakdown of the number of active patients by the Group's five private dental hospitals:

	For the year ended 31 December	
	2022	2021
	<i>No. of active patients</i>	<i>No. of active patients</i>
Wenzhou Hospital	32,111	40,509
Longgang Hospital	6,740	4,540
Lucheng Hospital	13,831	13,862
Rui'an Branch Hospital	2,833	2,462
Wenzhou Oral Care	8,144	537
Total	63,659	61,910

Revenue by Five Private Dental Hospitals

	For the year ended 31 December			
	2022		2021	
	Revenue <i>RMB'000</i>	Approx. % of the total revenue %	Revenue <i>RMB'000</i>	Approx. % of the total revenue %
Wenzhou Hospital	76,539	60.1	73,943	70.2
Longgang Hospital	7,202	5.6	7,364	7.0
Lucheng Hospital	23,036	18.1	19,828	18.8
Rui'an Branch Hospital	3,432	2.7	3,014	2.9
Wenzhou Oral Care	<u>17,199</u>	<u>13.5</u>	<u>1,166</u>	<u>1.1</u>
Total	<u>127,408</u>	<u>100.0</u>	<u>105,315</u>	<u>100.0</u>

Wenzhou Hospital, which commenced operations in March 2011, contributed the largest share of our revenue during the Year, representing approximately 60.1% of our total revenue for the year ended 31 December 2022.

PROSPECTS

Stepping into 2023, with the relaxation of the travel and quarantine measures and other restrictions in response to the COVID-19 pandemic and the gradual resumption of global economic activities, the Company expects growth in the consumption and retail market when the epidemic ends. Thanks to the strong support of government policies for economic recovery, domestic consumer and household spending was unleashed, fueling further optimism to the 2023 economy in China. The COVID-19 pandemic may have been a challenge to businesses, it is also a golden opportunity for the Group to capture the rising demand alongside the gradual improvement of economy. With years of experience, well-established reputation and loyalty and trust from our patients, the Company is more than ready, especially with the Listing, to formulate our business strategy on strengthening our market position and expand our market share in the industry as detailed in the Prospectus.

Cementing and extending our business footprints in PRC

Looking forward, the Group aspires to thrive on the growing market of dental service in Wenzhou, and continue with its plan to establish new private dental hospitals in Wenzhou to capture the rising demand in Wenzhou at strategic locations to create synergy with the existing dental hospitals, while looking for strategic potential acquisitions in Zhejiang Provinces. In particular, leveraging on the larger operation scale of Wenzhou Oral Care, the Group's flagship hospital, not only can the Group better serve the population particularly in Wenzhou City Area, it can also further tap into the orthodontics and cosmetic dentistry and implant dentistry markets by offering more comprehensive and advanced dental services in Wenzhou Oral Care. The Group believes it could enhance its presence, thereby

strengthening its competitiveness by establishing new dental hospitals in the strategic area of Lucheng District. The Group will continue to penetrate into paediatric dentistry market as it believes that the demand from children patients will continue to be the key driver of growth for the dental service market.

Striving to serve our customers with supreme quality dental services

On the other hand, in this competitive industry, the Group is poised to provide high quality and satisfactory dental experiences to our customers. The Group plans to upgrade its business operational software system to connect the business operational software systems currently operating separately at each of the five dental hospitals, as well as to increase the efficiency and effectiveness of centralised management of the Group's dental hospitals and network maintenance at headquarters level. The Group plans to expand the children dental department by reallocating the existing resources of Wenzhou Hospital, including the renovation of certain part of the premises of Wenzhou Hospital as well as to invest in advanced dental devices and introduce new technologies.

Nurturing our valuable assets of dentist talents

The Group believes that dentist talents are important, if not vital, assets to our Company. In 2023, the Group will continue to provide training to its medical staff, while carrying on the plan to establish a dentistry training centre so that it can have a centralised training centre for all of the dental hospitals and have the capacity to host, meeting and conferences for its dentists. Through cultivating our own pool of dentists, it believes that it could distinct the Group from other competitors and provide professional services to its clients.

FINANCIAL REVIEW

Revenue

During the Year, the Group's revenue increased by approximately 21.0% to RMB127.4 million (2021: approximately RMB105.3 million), mainly driven by (i) the increase in revenue contribution from implant dentistry, with the percentage of revenue generated from implant dentistry to total revenue increased significantly from approximately 15.8% to approximately 33.1% and implant dentistry had the highest overall average spending per visit among the Group's four types of dental services; (ii) the full period effect of Wenzhou Oral Care which commenced operation in November 2021, and partly offset by (iii) the adverse impacts brought by the resurgence of regional outbreak of COVID-19 in China.

Revenue by types of dental services

General Dentistry

The revenue for general dentistry for the year ended 31 December 2022 was approximately RMB32.0 million (2021: approximately RMB36.6 million), indicating a decrease of approximately 12.6% due to the decrease in the number of visits for general dentistry of approximately 12,000 as a result of the adverse impacts and stringent containment measures brought by the resurgence of regional outbreak of COVID-19 and partially offset by increase in overall average spending per visit. It accounts for approximately 25.1% of the total revenue of the Company in 2022 (2021: 34.8%), indicating a decrease of approximately 9.7 percentage points.

Orthodontics and Cosmetic Dentistry

The revenue for orthodontics and cosmetic dentistry for the year ended 31 December 2022 was approximately RMB19.9 million (2021: approximately RMB22.6 million), indicating a decrease of approximately 11.9% which mainly due to (i) the decrease in number of patients receiving the treatment of approximately 1,700 as a result of the adverse impacts brought by the resurgence of regional outbreak of COVID-19 and partially offset by (ii) increase in overall average spending per patient. It accounts for approximately 15.7% of the total revenue of the Company in 2022 (2021: 21.5%), indicating a decrease of approximately 5.8 percentage points.

Reparative Dentistry

The revenue for reparative dentistry for the year ended 31 December 2022 was approximately RMB28.1 million (2021: approximately RMB23.2 million), indicating an increase of approximately 21.1% driven by the increase in overall average spending per visit. It accounts for approximately 22.1% of the total revenue of the Company in 2022 (2021: 22.0%).

Implant Dentistry

The revenue for implant dentistry for the year ended 31 December 2022 was approximately RMB42.2 million (2021: approximately RMB16.6 million), indicating an increase of approximately 154.2% due to (i) increase in overall average spending per visit and (ii) increase in number of visits of more than 1,600, mainly as a result of (a) enhanced marketing and promotion effort primarily on implant dentistry and (b) the full period effect of Wenzhou Oral Care which commenced operation in November 2021. It accounts for approximately 33.1% of the total revenue of the Company in 2022 (2021: 15.8%), indicating an increase of approximately 17.3 percentage points.

Cost of Sales

The cost of sales mainly included (i) staff costs; (ii) cost of inventories, consumables and customised products; and (iii) depreciation expenses of property, plant and equipment and right-of-use assets.

During the Year, the Group's cost of sales has increased for approximately 28.1% to approximately RMB49.2 million (2021: approximately RMB38.4 million). The increase was generally in line with the increase in revenue.

The following table sets forth a breakdown of our cost of sales by nature, both in absolute amounts and as a percentage of total cost of sales, for the year indicated:

	For the year ended 31 December			
	2022		2021	
	<i>RMB'000</i>	<i>% of total cost of sales %</i>	<i>RMB'000</i>	<i>% of total cost of sales %</i>
Staff costs	24,148	49.1	20,124	52.4
Cost of inventories, consumables and customised products	15,204	30.9	11,201	29.2
Depreciation expenses of property, plant and equipment and right-of-use assets	8,404	17.1	5,884	15.3
Others	1,404	2.9	1,176	3.1
Total	<u>49,160</u>	<u>100</u>	<u>38,385</u>	<u>100</u>

Gross profit and gross profit margin

During the Year, the Group's gross profit increased by approximately 16.9% to RMB78.2 million (2021: approximately RMB66.9 million), mainly driven by increase in the revenue of approximately 21.0% for the year ended 31 December 2022. The Group's gross profit margin slightly decreased to approximately 61.4% (2021: approximately 63.6%), mainly due to the lower gross profit margin of Wenzhou Oral Care with its operations commencing in November 2021 as it was still in a ramp up period and incurred relevant expenses to accumulate its patient base.

Other income and gains

During the Year, the other income and gains increased by approximately 482.4% to approximately RMB9.9 million (2021: approximately RMB1.7 million), mainly driven by the increase in government grants in relation to the Listing.

Selling expenses

During the Year, the selling expenses primarily comprised marketing and promotion expenses, and staff costs. During the Year, the Group's selling expense increased by approximately 256.9% to RMB18.2 million (2021: approximately RMB5.1 million), mainly driven by (i) the increase in marketing and promotion expenses, as the Group increased online advertising efforts mainly on search engines such as

Baidu.com and Toutiao.com and other platforms such as Douyin and Meituan; and (ii) the increase in staff cost as a result of increase in discretionary bonus and headcounts of sales and marketing personnel to promote the dental services.

Administrative expenses

The Group's administrative expenses increased by approximately RMB9.5 million from approximately RMB17.5 million for the year ended 31 December 2021 to approximately RMB27.0 million for the Year. The increase was mainly driven by the increase in Listing expenses of approximately RMB7.3 million.

Income tax expenses

The Group's income tax expenses slightly increased by approximately 0.9% to approximately RMB11.6 million. (2021: approximately RMB11.5 million), mainly driven by increase in Listing expenses which were non-deductible for tax and partially offset by decrease in profit before tax of approximately RMB3.5 million.

Profit attributable to the owners of the Company

As a result of the foregoing, the profit for the Year attributable to owners of the Company dropped by 11.2% to approximately RMB28.5 million (2021: approximately RMB32.1 million).

Liquidity, Financial Resources and Capital Structure

The Group financed its operations primarily through cash generated from the Group's operation and the net proceeds received from the Global Offering.

As at 31 December 2022, the Group's net current assets amounted to approximately RMB135.3 million (as at 31 December 2021: RMB7.7 million), and its liquidity as represented by current ratio (total current assets/total current liabilities) was 4.3 times (as at 31 December 2021: 1.2 times). The Group's bank balances amounted to approximately RMB89.5 million (as at 31 December 2021: RMB41.3 million). As at 31 December 2022, the Group had no bank loans (as at 31 December 2021: Nil), and therefore the gearing ratio was not applicable (2021: not applicable).

On 14 December 2022, the ordinary shares of the Company were listed on the Main Board of the Stock Exchange by way of global offering and completed the share offer of its 150,000,000 ordinary shares, comprising 45,000,000 Hong Kong offer shares and 105,000,000 international placing shares, with a par value of HK\$0.01 each at an offer price of HK\$0.84 per share. The Company believes that the funding from the Global Offering on the Main Board would allow the Group to continue with its future business development to expanding our dental medical institutions network in the PRC and to gain access to capital market for raising funds in the future.

Pledge of Assets

As at 31 December 2022, the Group did not have any pledged assets (as at 31 December 2021: Nil).

Foreign Currency Exposure

The majority of the Group's revenue is denominated in Renminbi and the Group's accounts are prepared in Renminbi. As such, the Group did not have material exposure to fluctuations in foreign currency rates for cash generated from its operating activities. However, the net proceeds received by the Company for the Global Offering are denominated in Hong Kong dollars and the Company is exposed to fluctuation of exchange rate between Renminbi and Hong Kong dollars.

The Group currently does not have any hedging policy for foreign currencies in place. However, the management will remain alert to any relevant risks and, if necessary, consider hedging any material potential foreign exchange risk.

Capital Commitments

As at 31 December 2022, the Group had capital commitments of approximately RMB2.1 million for leasehold improvements and addition of medical equipments (2021: RMB0.5 million).

Contingent liabilities and guarantees

As at 31 December 2022, the Group had no material contingent liabilities or guarantees.

Employees and Remuneration Policies

As at 31 December 2022, the Group employed 304 staff (including executive Directors), all of which were located in the PRC (as at 31 December 2021: 297). Remuneration packages for the Group's employees mainly comprise basic salary and bonus. The Group annually reviews their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals. Moreover, the Group provides comprehensive training programs to its employees to enhance the technical skills of medical professionals to further their career development. The Group provides both in-house and external trainings for its employees to improve their skills and knowledge. The Company has also adopted share option scheme to create incentives to employees and to align their interest with that of the Company.

Employee benefit expenses primarily consist of salaries, bonus and allowance as well as contributions to the central pension scheme for the employees of the Group in the PRC. Employee benefits expenses was approximately RMB38.8 million during the Year (2021: approximately RMB31.0 million), representing an increase of approximately RMB7.8 million.

Significant Investments

During the Year, the Group did not have any significant investments.

Future Plans for Material Investment and Capital Assets

The Group intends to utilise the net proceeds raised from the Global Offering for business expansion and working capital in the manner set out in the Prospectus and the section headed “Prospects” above. Save as disclosed above, the Group did not have any future plans for material investments or capital assets as at 31 December 2022.

Material Acquisitions and Disposals of Subsidiaries, Associates or Joint Ventures

During the Year, there were no material acquisitions or disposals of subsidiaries, associates or joint ventures of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s securities listed on the Stock Exchange during the period from the Listing Date up to 31 December 2022.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of other significant events affecting the Company and its subsidiaries which have occurred since the end of the financial year to the date of this announcement.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

ANNUAL GENERAL MEETING

The annual general meeting will be scheduled on Friday, 9 June 2023 (the “AGM”). A notice convening the AGM of the Company will be issued and dispatched to the shareholders of the Company (the “Shareholders”) in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 6 June 2023 to Friday, 9 June 2023 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents of the Company accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 5 June 2023.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining good corporate governance so as to deliver long-term and sustained value for the Shareholders.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “**Corporate Governance Code**”) as set out in Part 2 of the Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as the basis of the Company’s corporate governance practices, and the Corporate Governance Code has been applicable to the Company with effect from the Listing Date.

To the best knowledge of the Directors, save and except for code provision C.2.1 of Corporate Governance Code as set out below, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code during the period from the Listing Date up to 31 December 2022.

The Company does not have a separate chairman and chief executive officer and Mr. Wang Xiaomin currently performs these two roles concurrently. The Board believes that vesting the roles of both the chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group for more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority within the Group will not be impaired by the present arrangement and the current structure will enable our Company to make and implement decisions more promptly and effectively. The Board will from time to time review and consider whether separation the roles of chairman of the Board and the chief executive officer of the Company is necessary.

Further information of the corporate governance practices of the Company will be set out in the corporate governance report in the annual report of the Company for the year ended 31 December 2022.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain a high standard of corporate governance practices of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in the Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions, and the Model Code has been applicable to the Company with effect from the Listing Date.

All Directors have confirmed, following specific enquiry made by the Company with each Director, that they had complied with the guidelines contained in the Model Code during the period from the Listing Date up to 31 December 2022.

SCOPE OF WORK OF THE AUDITOR

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2022, but represents an extract from the consolidated financial statements for the year ended 31 December 2022 which have been audited by the auditor of the Company, Ernst & Young, in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, namely Mr. Ng Ming Chee, Ms. Tam Hon Shan Celia, and Dr. Zhou Jian. Mr. Ng Ming Chee is the chairman of the Audit Committee.

The Audit Committee has, together with the management of the Company, reviewed the annual consolidated financial statements of the Group for the year ended 31 December 2022 and the accounting principles and policies adopted by the Group. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company, internal control and financial reporting matters with senior management members of the Group. The Audit Committee considers that this announcement is in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk as well as the website of the Company at www.meihaomedical.com. The Company's annual report for the year ended 31 December 2022 will be dispatched to the Shareholders and published on the aforementioned websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees and business partners for their support and contribution to the Group.

By order of the Board
Meihao Medical Group Co., Ltd
Mr. Wang Xiaomin
Chairman and executive Director

Hong Kong, 29 March 2023

As at the date of this announcement, the executive Directors are Mr. Wang Xiaomin and Ms. Zheng Man, and the independent non-executive Directors are Mr. Ng Ming Chee, Ms. Tam Hon Shan Celia and Dr. Zhou Jian.