

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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)

**(I) ANNOUNCEMENT OF THE ANNUAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

AND

(II) CHANGE IN USE OF PROCEEDS

FINANCIAL HIGHLIGHTS

Compared with RMB2,168.6 million for the year ended December 31, 2021, our revenue amounted to RMB1,412.8 million for the year ended December 31, 2022.

Compared with RMB1,580.0 million for the year ended December 31, 2021, our gross profit amounted to RMB872.6 million for the year ended December 31, 2022.

Compared with 72.9% for the year ended December 31, 2021, our gross profit margin was 61.8% for the year ended December 31, 2022.

The Group's net profit decreased from RMB120.2 million for the year ended December 31, 2021 to net loss of RMB85.9 million for the year ended December 31, 2022.

Basic earnings per Share was RMB0.29 for the year ended December 31, 2021, as compared to basic loss per Share of RMB0.16 for the year ended December 31, 2022.

The Board has resolved not to declare any dividend for the year ended December 31, 2022.

ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2022

The Board of Directors is pleased to announce the audited consolidated annual results of the Group for the year ended December 31, 2022, together with the comparative figures for the corresponding period in 2021 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended December 31,	
		2022	2021
		RMB'000	RMB'000
Revenue from contracts with customers	3	1,412,791	2,168,580
Cost of sales and services		<u>(540,212)</u>	<u>(588,604)</u>
Gross profit		872,579	1,579,976
Selling and marketing expenses		(766,783)	(1,072,647)
General and administrative expenses		(257,529)	(247,542)
Research and development expenses		(18,495)	(14,163)
(Impairment losses)/net reversal gains on financial assets		(138)	153
Other income	4	9,687	3,603
Other (losses)/gains – net	5	<u>(942)</u>	<u>6,715</u>
Operating (loss)/profit		(161,621)	256,095
Finance income	6	103,382	6,130
Finance costs	6	<u>(51,227)</u>	<u>(51,949)</u>
Finance costs – net	6	<u>52,155</u>	<u>(45,819)</u>
(Loss)/profit before income tax		(109,466)	210,276
Income tax expense	7	<u>23,608</u>	<u>(90,088)</u>
(Loss)/profit for the year		(85,858)	120,188
Other comprehensive (loss)/income		(144)	1,306
<i>Items that may be subsequently reclassified to profit or loss</i>			
Currency translation differences		(144)	761
<i>Items that will not be reclassified to profit or loss</i>			
Currency translation differences		<u>–</u>	<u>545</u>
Total comprehensive (loss)/income for the year		<u>(86,002)</u>	<u>121,494</u>
(Loss)/profit and total comprehensive (loss)/income for the year attributable to equity holders of the Company		<u>(86,002)</u>	<u>121,494</u>
(Loss)/earnings per share attributable to equity holders of the Company			
Basic (loss)/earnings per share (RMB)	8	(0.16)	0.29
Diluted (loss)/earnings per share (RMB)	8	(0.16)	0.28

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at December 31,	
		2022	2021
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		642,296	450,213
Right-of-use assets		989,235	925,142
Intangible assets		39,678	41,257
Deferred income tax assets		60,423	32,544
Prepayments, deposits and other receivables		9,258	1,508
		<u>1,740,890</u>	<u>1,450,664</u>
Total non-current assets			
Current assets			
Inventories	10	88,089	53,138
Trade receivables	11	7,055	13,351
Prepayments, deposits and other receivables		116,301	115,958
Term deposits		412,940	–
Cash and cash equivalents		565,093	1,566,192
		<u>1,189,478</u>	<u>1,748,639</u>
Total current assets			
		<u>1,189,478</u>	<u>1,748,639</u>
Total assets			
		<u><u>2,930,368</u></u>	<u><u>3,199,303</u></u>
Equity			
Equity attributable to equity holders of the Company			
Share capital		8	8
Share premium		1,332,287	1,240,408
Shares held for employee share scheme		(79,038)	–
Other reserves		155,494	155,454
Retained earnings		176,559	302,475
		<u>1,585,310</u>	<u>1,698,345</u>
Total equity			
		<u>1,585,310</u>	<u>1,698,345</u>
Liabilities			
Non-current liabilities			
Lease liabilities		845,048	762,303
Deferred income tax liabilities		1,502	975
		<u>846,550</u>	<u>763,278</u>
Total non-current liabilities			
		<u>846,550</u>	<u>763,278</u>
Current liabilities			
Borrowings		–	74,173
Trade and other payables	12	144,118	225,708
Contract liabilities		154,977	189,524
Current income tax liabilities		8,859	63,220
Lease liabilities		190,554	185,055
		<u>498,508</u>	<u>737,680</u>
Total current liabilities			
		<u>498,508</u>	<u>737,680</u>
Total liabilities			
		<u>1,345,058</u>	<u>1,500,958</u>
Total equity and liabilities			
		<u><u>2,930,368</u></u>	<u><u>3,199,303</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Yonghe Medical Group Co., Ltd. (the “Company”) was incorporated in the Cayman Islands on September 17, 2020 as an exempted company with limited liability under the Companies 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 service (the “Business”) in the Mainland (“Mainland China”) of People’s Republic of China (the “PRC”).

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on December 13, 2021.

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

After another wave of Coronavirus Disease 2019 outbreak (“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, which in turn resulted in downward pressure on the Group’s operations.

These consolidated financial statements have been approved for issue by the Board of Directors on March 30, 2023.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(ii) Historical cost convention

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

(iii) New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing January 1, 2022:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to HKAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37
- Annual Improvements to HKFRS Standards 2018-2020, and
- Reference to the Conceptual Framework – Amendments to HKFRS 3
- COVID-19 Related Rent Concessions beyond 30 June 2021 – Amendment to HKFRS 16 (March 2021) (the “HKFRS 16 Amendment (March 2021)”)
- Amendments to AG 5 Merger Accounting for Common Control Combinations

The Group also elected to adopt the following amendments early:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to HKAS 12,
- Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2,
- Definition of Accounting Estimates – Amendments to HKAS 8,
- Classification of Liabilities as Current or Non-current – amendments to HKAS 1,
- Non-current Liabilities with Covenants – Amendments to HKAS 1, and
- Lease Liability in a Sale and Leaseback – Amendments to HKFRS 16.

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

(iv) New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

During the reporting 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 year ended December 31, 2022:

	As at December 31, 2022 RMB'000
Effect on the consolidated balance sheet	
Decrease in other reserves	88,120
Increase in retained earnings	88,120
	Year ended December 31, 2022 RMB'000
Effect on the consolidated statement of comprehensive income	
Increase in finance income	88,120
Decrease in other comprehensive income	88,120
Increase in basic earnings per share (RMB)	0.17
Increase in diluted earnings per share (RMB)	0.17

3 REVENUE FROM CONTRACTS WITH CUSTOMERS

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Hair transplant	1,030,454	1,565,434
Medical hair care	362,508	582,290
Others	19,829	20,856
	<u>1,412,791</u>	<u>2,168,580</u>
	1,412,791	2,168,580
	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Revenue from customer by region		
Mainland China	1,403,092	2,160,776
Hong Kong	9,699	7,804
	<u>1,412,791</u>	<u>2,168,580</u>
	1,412,791	2,168,580

4 OTHER INCOME

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Government grants (a)	7,817	822
Additional value-added tax credit (b)	1,870	2,781
	<u>9,687</u>	<u>3,603</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 OTHER (LOSSES)/GAINS – NET

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment	(2,036)	(1,127)
Gains on early termination of property leases	2,121	–
Compensation from the early termination of a property lease	52	6,521
Others	(1,079)	1,321
	<u>(942)</u>	<u>6,715</u>

6 FINANCE COSTS – NET

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Finance income		
Foreign exchange gains	88,120	–
Interest income on bank deposits	15,262	6,130
	<u>103,382</u>	<u>6,130</u>
Finance costs		
Interest expenses on bank borrowings	(1,605)	(3,946)
Interest expenses for lease liabilities	(49,622)	(48,003)
	<u>(51,227)</u>	<u>(51,949)</u>
Finance costs – net	<u>52,155</u>	<u>(45,819)</u>

7 INCOME TAX EXPENSES

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Current income tax	3,744	93,649
Deferred income tax	(27,352)	(3,561)
Income tax expense	<u>(23,608)</u>	<u>90,088</u>

(a) 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.

(b) 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.

(c) 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.

(d) PRC Enterprise Income Tax (“EIT”)

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 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 Beijing Yonghe reapply 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 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing:

- the profit attributable to equity holders of the company, excluding undistributed earnings attributable to unvested restricted shares during the vesting period;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding shares held for employee share scheme.

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
(Loss)/profit for the year attributable to equity holders of the Company (RMB'000)	(85,858)	120,188
Less: undistributed earnings attributable to unvested restricted shares during vesting period (RMB'000)	<u>1,882</u>	<u>(2,618)</u>
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share (RMB'000)	(83,976)	117,570
Weighted average number of ordinary equity shares in issue ('000)	512,900	400,750
Basic (loss)/earnings per share for profit attributable to ordinary equity holders of the Company during the year (expressed in RMB per share)	<u>(0.16)</u>	<u>0.29</u>

(b) Diluted (loss)/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.

The potential ordinary shares were not included in the calculation of dilutive losses per share, which would be anti-dilutive, and the dilutive losses per share was the same as the basic losses per share.

As the Group incurred losses for the year ended December 31, 2022, the potential ordinary shares were not included in the calculation of dilutive losses per share, which would be anti-dilutive. Accordingly, dilutive losses per share was the same as the basic losses per share.

For the year ended December 31, 2021, the diluted earnings per share was as follows:

Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share (RMB'000)	117,570
Add: undistributed earnings attributable to unvested restricted shares during vesting period (RMB'000)	<u>2,618</u>
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share (RMB'000)	120,188
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share ('000)	400,750
Adjustments for calculation of diluted earnings per share: Restricted shares ('000)	<u>29,418</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share ('000)	430,168
Diluted earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)	<u><u>0.28</u></u>

9 DIVIDENDS

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Dividend distribution (a)	40,058	69,800
Proposed final dividend of RMB0.076 per share	<u>–</u>	<u>40,058</u>

- (a) On June 28, 2022, the Company declared a cash dividend of approximately HKD49.02 million (approximately RMB40.06 million), being HKD0.093 per share. The dividend has been paid on September 14, 2022 amounting to RMB43.16 million (On November 12, 2021, the Company declared a cash dividend of approximately RMB69.80 million, being RMB0.1645 per share. The dividend has been paid on November 25, 2021).

10 INVENTORIES

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Medical hair care consumables	39,811	12,883
Pharmaceuticals and medical consumables	21,485	17,617
Wash and hair care products	20,596	16,894
Others	<u>6,197</u>	<u>5,744</u>
	88,089	53,138
Less: allowance for impairment of inventories	<u>–</u>	<u>–</u>
	<u><u>88,089</u></u>	<u><u>53,138</u></u>

11 TRADE RECEIVABLES

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables from contracts with customers		
– Third parties	7,086	13,489
Less: allowance for impairment	(31)	(138)
	<u>7,055</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 3 months. The aging analysis of the trade receivables based on invoice date is as follows:

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	6,805	12,305
3 to 6 months	249	1,184
6 months to 1 year	22	–
1-2 years	10	–
	<u>7,086</u>	<u>13,489</u>
Less: allowance for impairment	(31)	(138)
Total	<u>7,055</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.

(c) Impairment and risk exposure

The loss allowance for trade receivables as at December 31, 2021 and 2022 are determined as follows:

	As at December 31,	
	2022	2021
	Loss allowance provision <i>RMB'000</i>	Loss allowance provision <i>RMB'000</i>
Trade receivables		
– Financial institutions	7	9
– Third party payment platforms	9	11
– Corporate customers	15	118
	<u>31</u>	<u>138</u>

12 TRADE AND OTHER PAYABLES

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Accrued employee benefits	61,136	83,712
Trade payables	43,968	36,059
Tax payables	13,100	20,722
Refund liabilities (i)	8,188	10,293
Accrued expenses	8,197	42,122
Security deposit	5,691	4,270
Amounts due to related parties	–	25,354
Others	3,838	3,176
	<u>144,118</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 trade payables based on invoice date at the end of each reporting period are as follows:

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	36,190	29,120
3 to 6 months	3,182	3,291
6 months to 1 year	1,669	1,378
1 to 2 years	1,747	1,961
Over 2 years	1,180	309
	<u>43,968</u>	<u>36,059</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As the leading medical group in China specialising 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 comprised by “Yonghe Hair Transplant” (雍禾植髮) for our professional hair transplant service, “Svenson” (史雲遜) for our medical hair care service, “Fa Zhi Chu” (髮之初) for our female aesthetic hair transplant service, and “Harvard” (哈髮達) for our medical wig products. Simultaneously with the provision of hair transplant service, we have provided our medical-grade hair health management services in a more professional way 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 since 2019 and through Svenson Medical Hair Care Centers that have been opened as stand-alone stores since 2022.

As at December 31, 2022, we operated 63 clinics under the brands of Yonghe Hair Transplant/Fa Zhi Chu Female Hair Transplant in 60 cities nationwide, and 9 hair care centers under the brand of Svenson in Beijing, Shanghai, Guangzhou and Shenzhen, making us the largest hair transplant clinic chain in China in terms of scale and geographical coverage.

The following table sets forth the distribution of our hair transplant clinics by city tier* and the distribution of our stand-alone Svenson stores as at December 31, 2022:



Yonghe/Fa Zhi Chu hair transplant clinics

	Year ended December 31,	
	2022	2021
Tier-one cities	5	4
New tier-one cities	19	18
Tier-two cities	27	24
Tier-three cities	11	7
Hong Kong	1	1
	<hr/>	<hr/>
Subtotal	63	54
	<hr/>	<hr/>
Stand-alone Svenson stores	2022	2021
Shenzhen	2	/
Guangzhou	4	/
Shanghai	2	2
Beijing	1	1
	<hr/>	<hr/>
Subtotal	9	3
	<hr/>	<hr/>
Total	<u>72</u>	<u>57</u>

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.

For the year ended December 31, 2022, the Group had a revenue of RMB1,412.8 million and a gross profit of RMB872.6 million, generating a gross profit margin of 61.8%. The following table sets forth a breakdown of our revenue composition, gross profit and gross profit margin by service type for the years indicated:

	Year ended December 31,							
	2022				2021			
	Revenue		Gross	Gross	Revenue		Gross	Gross
	<i>RMB'000</i>	%	<i>RMB'000</i>	profit	<i>RMB'000</i>	%	<i>RMB'000</i>	profit
				margin				margin
				%				%
Hair transplant service	1,030,454	72.9	642,597	62.4	1,565,434	72.2	1,138,031	72.7
Medical hair care service	362,508	25.7	223,976	61.8	582,290	26.8	430,254	73.9
Others	19,829	1.4	6,006	30.3	20,856	1.0	11,691	56.1
	<u>1,412,791</u>	<u>100</u>	<u>872,579</u>	<u>61.8</u>	<u>2,168,580</u>	<u>100</u>	<u>1,579,976</u>	<u>72.9</u>

Hair Transplant Service

For the year ended December 31, 2022, our revenue from hair transplant service amounted to RMB1,030.5 million, accounting for 72.9% of our total revenue. We have always been committed to providing professional and high-quality hair transplant service 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 year ended December 31, 2022, the number of patients who underwent our hair transplant surgery was 39,254.

The table below illustrates the key operating data of our hair transplant service for the years indicated:

	Unaudited	
	Year ended December 31, 2022	2021
Number of patients who received our hair transplant	39,254	58,464
Average spending per hair transplant patient (<i>RMB</i>)	26,251	26,643
Three levels of services		
Number of patients who received our basic-level services	6,154	53,776
Number of patients who received our premium-level services	478	4,435
Number of patients who received our "Yongxiang" (雍享) services	42	253
Four levels of services (under our new pricing mechanism)		
Number of patients who received services from our business chiefs	23,169	/
Number of patients who received services from our business deans	8,394	/
Number of patients who received services from our Yongxiang chiefs	835	/
Number of patients who received services from our Yongxiang deans	182	/

Medical Hair Care Service

For the year ended December 31, 2022, our revenue from medical hair care service amounted to RMB362.5 million, accounting for 25.7% of our total revenue. As a pioneer in China's medical hair care industry, we have provided professional and customised diagnosis and treatment services to our patients through Svenson Medical Hair Care Centers in our hair transplant clinics under the "shop-in-shop" model. To further boost a broader development of our medical hair care service, we have provided our medical-grade hair health management services to our patients in a more convenient and professional way through our "Svenson Medical Hair Care Centers" that have been opened as stand-alone stores since 2022. For the year ended December 31, 2022, the number of patients who received our medical hair care service was 63,257, and the repurchase rate of our medical hair care service packages was 28.2%.

The table below illustrates the key operating data of our medical hair care service for the years indicated:

	Unaudited Year ended December 31,	
	2022	2021
Number of patients who received our medical hair care service	63,257	105,275
Average spending per medical hair care patients (RMB)	5,731	5,531
*Repurchase rate	28.2%	29.0%

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

BUSINESS UPDATES

Strengthening operational 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 focused our efforts on expanding the presence of Yonghe Hair Transplant clinics into tier-two and tier-three cities, and started to open stand-alone Fa Zhi Chu Female Hair Transplant clinics, and extended the store network for stand-alone Svenson Medical Hair Care Centers in the Guangzhou-Shenzhen region. During the Reporting Period, we opened i) 6 Yonghe Hair Transplant clinics; ii) 3 Fa Zhi Chu Female Hair Transplant clinics in Hangzhou, Beijing and Chengdu, respectively; iii) 6 Svenson centers in Shenzhen and Guangzhou, respectively. As at December 31, 2022, our 63 hair transplant clinics covered 60 cities in 28 provinces, autonomous regions, municipalities and special administrative regions across China.

	Year ended December 31,	
	2022	2021
Mature-stage clinics	37	30
Developing-stage clinics	17	18
Newly-established clinics	9	6
Total	63	54

Strengthening medical service capabilities

Sincere physicians are rewarded by patients with trust. In February 2022, we 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 customised design standards. The system is designed to enable us to establish a clearly-structured and easily identifiable echelon of professionals, and further improve the education and training, competition and job promotion systems and career paths for our physicians, forming a complete service rendering and closed-loop management.

We have always adhered to our fundamental principle and original intention of healthcare and implemented the value of integrity and transparency in healthcare. During the Reporting Period, closely following the national policy directives and future trends, 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, standardised and refined future, and enhance patients' experience, recognition and confidence with hair transplant clinic chains. In June 2022, all of our clinics operating in Mainland China pioneered in the consultation integration reform by adopting the physician consultation service.

In September 2022, the Group launched an upgraded version of the "Good Physician System", namely the "Strong Physician Program". With focus on aspects such as strengthening the ability of our physician team in technology realization, enhancing the capability of hair-related diseases diagnosis, emphasising the value of physicians themselves, and organising academic conferences that cover a broad-spectrum and multi-level of physicians, the purposes of the program are to promote integrated training and function sharing between outpatient physicians and surgeons, enhance the competence and service efficiency of physicians and establish an easily identifiable echelon of medical professionals. As at December 31, 2022, Yonghe Medical had a team of 1,341 medical professionals, 294 of them were physicians. On this basis, we established the "Hair Transplant Physician Grading and Evaluation System", in which four appraisal indicators and 24 assessment dimensions have been clearly defined to further improve our treatment efficacy and satisfy the diverse needs of our patients.

Pursuing refined marketing strategy for brand value enhancement

The Group has always put great emphasis on brand value enhancement and marketing refinement and believes that our brand is a key to building up market competitiveness in the consumer healthcare industry. During the Reporting Period, the Group recruited a number of high-caliber senior executives who have experience in successful chain brand operation. We thus managed to solidify our brand reputation by formulating a multi-pronged marketing strategy and enhancing customers' awareness and stickiness to our brand. We also formulated our brand connotation marketing strategy focusing on our female business and medical hair care business that improves the brand influence of our "Fa Zhi Chu" female brand and our "Svenson" medical hair care brand in market segments in accordance with the industry developments, taking into account the growth of female customer base, the demand of a group of younger-age customers suffering from alopecia and the rising concerns over hair health among customers. The Group believes that brand reputation is founded on high standards of service quality and the most effective channel of marketing is the word-of-mouth referrals from customers. During the Reporting Period, the Group recorded a continued increase in the patient referral rate, which represented the achievements of our refined marketing and brand value enhancement efforts.

Promoting innovation in products and services

During the Reporting Period, the Group also made great efforts in scientific research and innovation. So far, hair transplant remains the most effective way for hair loss treatment. But for those patients who suffer from a large area of hair loss, lacking hair follicles limits the conditions for hair transplant. Since 2020, the Group has cooperated with Sun Yat-sen University to conduct research on inducing the transformation of fibroblasts into dermal papilla cells. Using the conversion of cell fate induced by small molecules to screen for small molecules that can induce the transformation of hair-inducing dermal papilla cells, the transformed cells can promote and integrate the reconstruction of hair follicles in vivo, resulting in an abundant of cells that can induce hair growth for treatment of hair loss. This method is based on the relatively mature research on the conversion of cell fate induced by small molecules, which can avoid the risk of gene mutation caused by transgene induction. In 2022, the research result of the cooperation between the Group and Sun Yat-sen University was officially published in the International Journal of Molecular Sciences, an authoritative Scientific Citation Index (SCI) Journal in international molecular medicine. The paper provides a simple and effective solution for subsequent in vitro culture of dermal papilla cells and treatment of hair loss by using small molecule drugs that transform fibroblasts into hair-inducing dermal papilla cells. This is a revolutionary breakthrough academic achievement in the hair industry that brings hopes of hair follicle regrowth to patients with thin hair.

Promoting the development of scientific and information technology

Both innovation and application of digital technology are our important means to increase operating efficiency and enhance patients' experience. We have always adopted industry-leading technology to enlarge our customer base, enhance patients' experience, increase our operating 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. We upgraded the information technology of our business operation system which allows appointment for consultation, smart photogrammetry for hair loss area measurement, upgrade of integrated diagnosis and treatment process and upgrade of our capabilities in areas such as operational data dashboard. With these technological applications, patients' experience is considerably enhanced as our diagnosis and treatment process becomes more efficient, patients' waiting time is effectively shortened and the cumbersome procedures in the course of operation are reduced.

Social responsibility and award of honors

We have always adhered to our active commitment to corporate social responsibility, and striven to contribute more to the community while pursuing our business development. We realise that a company cannot succeed without the support of the society. Therefore, we actively reward to the society, care for environmental protection, participate in volunteering and charitable activities and taking other initiatives, thereby fostering a stronger sense of corporate social responsibility and a better social image.

In addition, we are relatively reputable and well-known in our industry. During the Reporting Period, we were honored to receive a number of significant awards, including the Best Annual Report Award by Hong Kong Investor Relations Association, the Rising Star of Listed Company Awards of Excellence 2022 by Hong Kong Economic Journal, the Best Information Disclosure Award of the 6th China IR Annual Awards, the Best CEO Award of the 7th Zhitong Caijing Listed Companies Awards, the Listed Company with Potential 2022 by Snowball Finance, the Best Growth Value of Listed Companies Award of Guruclub Greater China Best Listed Company Awards 2022 and the Annual Listed Companies with Excellent Value of the Golden Sail Award. These awards represent rewards for our restless efforts and recognition of our unwavering dedication to innovation and continuous development over the years. We will continue to endeavor to deliver greater value and returns for our shareholders, customers, staff members and people from all walks of the society.

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 2022, the total number of patients receiving our treatments reached 104,380. We expect that there will be an increasing number of patients in demand of alopecia treatments and medical hair care service. 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 open new clinics as planned. To this end, we will pursue our strategy of penetrating into lower-tier cities for broader geographical coverage of our clinic network to further increase our coverage in cities of all tiers, 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” to further increase our density of coverage in all cities. We will also improve our presence by opening Fa Zhi Chu female hair transplant clinics in selected regions to provide customised aesthetic hair transplant service to our female aesthetic hair transplant consumers. We expect to have nearly 85 hair transplant clinics in China by the end of 2023.

- ***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. We will further diversify the design and application of Svenson products by launching a wider range of more effective hair health management products with the certificate for medical devices (械字號) and certificate for special cosmetics (特字號) on the basis of our existing Svenson products with the certificate for cosmetics (妝字號). Meanwhile, we strive to gradually expand the scale of our customer coverage on top of our established Svenson customer base. With the launch of upgraded customised tracking services and the establishment of medical diagnosis and treatment system, we will provide our customers with more comprehensive and professional hair health management services. We will also work further on the business expansion of our stand-alone Svenson stores by increasing the presence of Svenson Medical Hair Care Centers in a wider geographic area, so as to achieve an enhanced brand awareness and market share.

- ***Comprehensive hair hospitals***

Transforming our hair transplant clinics to comprehensive hair hospitals is another move we make to achieve business expansion from hair transplant market to hair-related healthcare service market. Qualified as class I general hospitals, our newly-opened comprehensive hair hospital in Shanghai has 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. Our comprehensive hair hospital in Shanghai has commenced operation and our comprehensive hair hospital in Beijing is under construction and expected to commence operation upon completion by the middle of 2023.

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. We will continue to upgrade our digital and smart business operation and marketing ecosystems in the following 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 realise 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 products for use in smart consultation rooms and smart operation rooms and conduct pilot runs in highlighted clinics to further optimise our system for surgery quality control and enhance our medical professionalism; 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 centralised through digitalization, and we will set up new business systems and strengthen our database capacity for the establishment of real-time data warehouse platform, so as to help improve data insight efficiency and substantially increase the operating manpower efficiency in functional organizations.

Note: Industry data contained in this section is sourced from the industry information provided by Frost & Sullivan

FINANCIAL REVIEW

Revenue

In 2022, the Group had a revenue of RMB1,412.8 million (2021: RMB2,168.6 million), representing a decrease of 34.9% over last year. The Group's revenue is mainly derived from (i) hair transplant service; (ii) medical hair care service; and (iii) others.

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

	Year ended December 31,			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Hair transplant service	1,030,454	72.9	1,565,434	72.2
Medical hair care service	362,508	25.7	582,290	26.8
Others	19,829	1.4	20,856	1.0
	<u>1,412,791</u>	<u>100</u>	<u>2,168,580</u>	<u>100</u>

Revenue from hair transplant service

The Group's revenue from hair transplant service was RMB1,030.5 million (2021: RMB1,565.4 million) for the year ended December 31, 2022, representing a decrease of 34.2% over the year. Such decrease in revenue from hair transplant service was primarily attributable to the decrease in the number of hair transplant patients due to the limitation on the customer flow in stores. During the Report Period, our customer flow in stores dropped by approximately 40.0% and the number of hair transplant patients was 39,254.

Revenue from medical hair care service

The Group's revenue from medical hair care service was RMB362.5 million (2021: RMB582.3 million) for the year ended December 31, 2022, representing a decrease of 37.7% over the year. Same as our hair transplant service, such decrease in revenue from medical hair care service was primarily attributable to the limitation on the customer flow in stores, which led to a decrease in both the number of store-visiting patients and their frequency of consumption. In 2022, the number of medical hair care patients served by the Group is 63,257 and the average spending per patient increase from RMB5,531 in 2021 to RMB5,731 in 2022.

Revenue from others

The Group's revenue from others mainly derived from the rendering of services and sales of goods by our stand-alone Svenson stores for routine services, which amounted to RMB19.8 million (2021: RMB20.9 million) in 2022.

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 years indicated:

	Year ended December 31,			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Staff costs	208,248	38.6	246,910	42.0
Amortization and depreciation charges	194,564	36.0	177,874	30.2
Cost of inventories and consumables	94,216	17.4	101,220	17.2
Operation related expenses	29,919	5.5	33,048	5.6
Other expenses	13,265	2.5	29,552	5.0
	<u>540,212</u>	<u>100</u>	<u>588,604</u>	<u>100</u>

During 2022, the Group incurred costs of RMB540.2 million (2021: RMB588.6 million), representing a decrease of 8.2% over the year. In particular, staff costs represent the salaries, wages and bonuses paid to physicians, nurses and other professionals. Owing to the decrease in the number of surgeries, our medical team members received less performance-based compensation, which resulted in a reduction in variable staff costs. 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.

Gross profit and gross profit margin

In 2022, the Group recorded a gross profit of RMB872.6 million (2021: RMB1,580.0 million), representing an decrease of 44.8% over the year. Our gross profit margin was 61.8% (2021: 72.9%). Such decline in gross profit margin was primarily attributable to (i) the significant decrease in revenue due to the impact of the pandemic situation; (ii) the incurrence of staff cost paid to our outpatient physicians since the implementation of the physician consultation system; and (iii) the relatively high level of fixed costs such as depreciation of right-of-use assets and amortization of leasehold improvement as we were still positive about the economic development in China and the growth of the hair transplant industry so that we continued to expand the network of our stores.

Other income

The Group's other income mainly consists of government grants and additional value-added tax credit. In 2022, the Group had other income of RMB9.7 million (2021: RMB3.6 million).

General and administrative expenses

During 2022, the Group incurred general and administrative expenses of RMB257.5 million (2021: RMB247.5 million). Our general and administrative expenses primarily consist of (i) staff costs, which represent share-based compensation expenses, wages, benefits and bonuses of our administrative staff; (ii) operation related expenses for our administrative team, which primarily include conference fees, utilities, maintenance fees and rental payments; (iii) amortization and depreciation charges; and (iv) professional and consulting service fees incurred in relation to audit services, rental agencies and internet services. The following table sets forth a breakdown of our general and administrative expenses by nature for the years indicated:

	Year ended December 31,			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Staff costs	168,500	65.4	123,566	49.9
Operation related expenses	19,384	7.5	16,299	6.6
Amortization and depreciation charges	15,396	6.0	8,378	3.4
Professional and consulting service fees	13,278	5.2	12,436	5.0
Travelling and entertainment expenses	8,289	3.2	6,360	2.6
Listing expenses	–	–	46,977	19.0
Others	32,682	12.7	33,526	13.5
	<u>257,529</u>	<u>100.0</u>	<u>247,542</u>	<u>100.0</u>

Selling and marketing expenses

In 2022, the Group incurred selling and marketing expenses of RMB766.8 million (2021: RMB1,072.6 million). Our selling and marketing expenses primarily consist of marketing and promotion expenses, and staff costs.

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

	Year ended December 31,			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Marketing and promotion expenses	492,252	64.1	684,274	63.8
Staff costs	225,878	29.5	318,928	29.7
Travelling expenses	18,299	2.4	30,572	2.9
Amortization and depreciation charges	14,499	1.9	14,551	1.4
Operation related expenses	13,895	1.8	20,464	1.9
Others	1,960	0.3	3,858	0.3
	<u>766,783</u>	<u>100.0</u>	<u>1,072,647</u>	<u>100.0</u>

Our selling expenses contracted as compared to 2021 because we made corresponding adjustments to our marketing strategy against the affected regions and periods due to COVID-19 pandemic in an effort to control our marketing expenses and achieve a higher marketing conversion rate.

Income tax expenses

In 2022, the Group's income tax credit was RMB23.6 million compared to the income tax expense of RMB90.1 million in 2021. This was primarily attributable to the deferred income tax recognised for the temporary loss for the year.

Net profit and net profit margin

In light of the foregoing, the Group's net profit decreased by 171.4% from RMB120.2 million in 2021 to net loss of RMB85.9 million in 2022. The Group's net profit margin dropped from 5.5% in 2021 to -6.1% in 2022.

Liquidity and Capital Resources

As at December 31, 2022, cash and cash equivalents of the Group amounted to RMB565.1 million (2021: RMB1,566.2 million). As at December 31, 2022, the Group had no bank borrowings (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 RMB691.0 million as at December 31, 2022, the Directors believe that the Group has sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Cash flows

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

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (used in)/generated from operating activities	(108,562)	437,281
Net cash used in investing activities	(650,565)	(193,944)
Net cash (used in)/generated from financing activities	(333,054)	1,028,222
Cash and cash equivalents at beginning of the year	1,566,192	292,856
Cash and cash equivalents at end of the year	565,093	1,566,192

Cash and cash equivalents and term deposits

As at December 31, 2022, the Group had cash and cash equivalents and term deposits of RMB978.0 million (2021: RMB1,566.2 million), including RMB412.9 million as term deposit. We have robust cash flows which are adequate to meet the capital requirements for daily operation and for our plan of future clinic expansion.

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 years indicated:

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Payments for property, plant and equipment	240,573	181,629
Payments for intangible assets	2,940	9,012
Total	243,513	190,641

In 2022, the Group incurred capital expenditures of RMB243.5 million (2021: RMB190.6 million). Such increase in capital expenditures was driven by the business expansion of the Group.

Inventories

In 2022, the Group had inventories of RMB88.1 million (2021: RMB53.1 million).

Trade and other payables

As at December 31, 2022, the Group had trade and other payables of RMB144.1 million (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 due to the COVID-19 pandemic.

Indebtedness

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

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Bank borrowings	–	74,173
Amounts due to related parties(non-trade)	–	25,354
Lease liabilities	<u>190,554</u>	<u>185,055</u>
Non-current		
Lease liabilities	<u>845,048</u>	<u>762,303</u>
Total	<u><u>1,035,602</u></u>	<u><u>1,046,885</u></u>

Bank borrowings

As at December 31, 2022, the Group had no outstanding bank borrowings (2021: RMB74.2 million). Our bank loans bear interest at rates ranging from 3.85% to 4.9% per annum (2021:4.0%-4.9%).

Amounts due to related parties (Non-trade)

As at December 31, 2022, the amount due to related parties (non-trade) from the Group is nil (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 (顯赫植髮), which was settled in full by the Group during the Reporting Period.

Lease liabilities

We recognise a lease liability with respect to all leases, except for short-term leases and leases of low value assets. As at December 31, 2022, the Group (as lessee) had total lease liabilities of RMB1,035.6 million (2021: RMB947.4 million), which were unsettled for the remaining terms of the relevant lease agreements.

Contingent liabilities

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

Future plan for material investments and capital assets

Save as disclosed in the Prospectus, for the year ended December 31, 2022, the Group did not have any future plan for material investments and capital assets.

Material acquisitions and disposals

For the year ended December 31, 2022, the Group did not make any material acquisitions or disposals of subsidiaries, associates and joint ventures.

As at December 31, 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 December 31, 2022.

Gearing ratio

Gearing ratio is calculated using bank loans and other borrowings divided by total equity as the end of such year and multiplied by 100.0%. As December 31, 2022, because the Group had no bank borrowings, the Group's gearing ratio was nil (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. As at December 31, 2022, the Group had the cash and cash equivalents of RMB272.6 million denominated in foreign currencies, mainly USD (2021: RMB1,180.7 million, mainly HKD). We monitor foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2022, the Group had a total of 3,741 employees, among which 1,341 employees are our professional medical team members. Staff costs were RMB616.7 million for the year ended December 31, 2022, as compared to RMB700.3 million for the year ended December 31, 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.

FINAL DIVIDEND

The Board has resolved not to declare any final dividend for the year ended December 31, 2022.

ANNUAL GENERAL MEETING

The AGM will be held on June 16, 2023. A notice convening the AGM will be published on the websites of the Company (www.yonghegroup.cn) and the Stock Exchange (www.hkexnews.hk) and dispatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining entitlement of the Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from June 13 to June 16, 2023 (both days inclusive). In order to qualify for attending and voting at the AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration by 4:30 p.m. on June 12, 2023.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

During the Reporting Period, the Company has complied with all the applicable principles and code provisions as set out in the CG Code except for the deviation from provision C.2.1 of the CG Code. Mr. ZHANG Yu is the Chairman and chief executive officer of the Company. With extensive experience in the hair health industry and having served in the Company since its establishment, Mr. ZHANG Yu is in charge of the overall strategic planning, business direction and operational management of the Group. The Board considers that vesting the roles of the Chairman and the chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the Board, which comprises experienced and diverse individuals. The Board currently comprises 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.

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

MODEL CODE

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the Reporting Period. No incident of non-compliance of the Model Code by the relevant employees has been noted by the Company during the Reporting Period.

SUBSEQUENT EVENTS

Save as disclosed in this announcement, the Company had no material matters subsequent to the Reporting Period.

USE OF PROCEEDS FROM THE GLOBAL OFFERING AND CHANGE IN USE OF PROCEEDS

Reference is made to (i) the Prospectus in relation to the Listing, which sets out the intended use of the net proceeds from the issue of new shares of the Company (the “**Net Proceeds**”) at the time of preparing the Prospectus, (ii) the annual report of the Company for the year ended December 31, 2021 in which the utilization of the Net Proceeds up to December 31, 2021 was disclosed, and (iii) the interim report of the Company for the six months ended June 30, 2022, in which the utilization of the Net Proceeds up to June 30, 2022 was disclosed.

The Board hereby announces that it has resolved to change the use of the unutilized Net Proceeds. The Net Proceeds received by the Company, after deducting related underwriting fees and expenses payable by the Company in connection with the global offering, were approximately HKD1,526.2 million and the unutilized Net Proceeds of HKD930.6 million were kept in the bank accounts of the Group as at December 31, 2022. As at the date of this announcement, the unutilized Net Proceeds amounted to approximately HKD825.6 million. An analysis of the utilization of the Net Proceeds as at December 31, 2022 and as at the date of this announcement and the proposed change in the use of the unutilized Net Proceeds, as well as the expected timeline for full utilization, is set out as below:

Use of proceeds	Planned applications <i>HK\$ million</i>	Percentage of total net proceeds %	Amount utilized as at December 31, 2022 <i>HK\$ million</i>	Amount unutilized as at December 31, 2022 <i>HK\$ million</i>	Amount utilized as at the date of this announcement <i>HK\$ million</i>	Amount unutilized as at the date of this announcement <i>HK\$ million</i>	Revised amounts of unutilized Net Proceeds as at the date of this announcement <i>HK\$ million</i>	Expected timeline for full utilization ¹
To expand and upgrade existing hair transplant clinics in our network in China	642.6	42.1	364.6	278.0	458.0	184.7	64.7	By December 2025
To fund our innovations in product and service offerings	267.1	17.5	36.4	230.7	44.8	222.3	222.3	By December 2025
For investment in research and development to upgrade our service system with cutting-edge technology	148.0	9.7	8.6	139.4	11.9	136.1	136.1	By December 2025
To integrate industry resources to raise brand awareness in China	357.1	23.4	74.8	282.3	74.8	282.3	378.3	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	24.2	0.2	0	N/A
For our working capital and general corporate purposes	87.0	5.7	87.0	0	87.0	0	24.2	N/A
Total	1,526.2	100.0	595.6	930.6	700.6	825.6	825.6	

Save for the aforesaid changes, there is no other change in the use of the Net Proceeds.

¹ The expected timeline for the usage of the remaining Net 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.

Reasons for and benefits of the change in use of proceeds

As stated in the Prospectus, the Group planned to use its Net Proceeds to fund the building of 6 comprehensive hair hospitals in China. As at the date of this announcement, the Group has completed establishing the new hospital in Shanghai and completed transforming the existing clinics in Guangzhou and Shenzhen, and expects to complete the new hospital in Beijing in April 2023. The actual costs of establishing these hospitals have been less than the anticipated costs as renovation and equipment costs have reduced. In addition, due to the resurgence of COVID-19 during 2022, the other two comprehensive hair hospitals in Chengdu and Chongqing have significantly reduced in their respective business scale and size. Thus, the costs associated with implementing these two comprehensive hair hospitals in China have reduced significantly. The Board considers that such change in business scale and size does not affect the Company's current business development plan. Therefore, the Board considered reallocating the Net Proceeds of HKD120.0 million from this category to ensure unutilized Net Proceeds can be used effectively to enhance profitability and enhance the Group's market share in other areas of the Group's business plan.

As the Group plans to increase its market share and fasten its expansion in relation to its "Svenson" (史雲遜) brand, the Board estimated that approximately HKD96.0 million would be reallocated for the additional costs associated with increasing brand awareness by placing additional advertisements and sponsoring of entertainment events. The Group also estimated that HKD24.2 million would be reallocated to our working capital and general corporate purposes.

The Board confirms that there are no material changes in the nature of the business of the Group as set out in the Prospectus. The Board considers the above change in the use of the Net Proceeds is fair and reasonable as this would allow the Group to deploy its financial resources more effectively to enhance the profitability of the Group and is therefore in the interests of the Group and the Shareholders as a whole. The Board will continuously assess the plan for the use of the unutilized Net Proceeds and may revise or amend such plan where necessary to cope with the changing market conditions and strive for better business performance of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Shares during the year ended December 31, 2022.

AUDIT COMMITTEE

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

REVIEW OF ANNUAL RESULTS

The Audit Committee has jointly reviewed with the management and the independent auditors of the Company, the accounting principles and policies adopted by the Company and discussed internal control and financial reporting matters (including the review of the audited consolidated financial statements of the Group for the year ended December 31, 2022, which has been agreed by the independent auditors of the Company) of the Group. The Audit Committee and the independent auditors consider that the annual results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

SCOPE OF WORK OF AUDITORS

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended December 31, 2022 as set out in this announcement have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2022. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

DEFINITIONS

“AGM”	annual general meeting of the Company
“Audit Committee”	audit committee of the Company
“Board” or “Board of Directors”	the board of Directors of the Company
“CAGR”	compound annual growth rate, representing the year-over-year growth rate of a value over a specified period of time taking into account the effects of compounding and calculated by subtracting one from the result of dividing the ending value by its beginning value raised to the power of one divided by the period length
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Chairman”	the Chairman of the Board
“China” or the “PRC”	the People's Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company” or “our Company”	Yonghe Medical Group Co., Ltd. (雍禾醫療集團有限公司), a limited liability company incorporated under the laws of the Cayman Islands on September 17, 2020

“COVID-19”	Coronavirus disease of 2019
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HKD” 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, as amended or supplemented from time to time
“Main Board”	Main Board of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus issued by the Company dated December 1, 2021
“Renminbi” or “RMB”	Renminbi Yuan, the lawful currency of the PRC
“Reporting Period”	the twelve-month period from January 1, 2022 to December 31, 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, chief executive officer and
executive Director*

Hong Kong, March 30, 2023

As at the date of this announcement, the Board of Directors comprises Mr. Zhang Yu, Mr. Zhang Hui and Ms. Han Zhimei, as executive Directors; Mr. GENG Jiaqi, as a non-executive Director and Ms. Liang Jihong, Mr. Chan Peng Kuan and Mr. Li Xiaopei, as independent non-executive Directors.