美皓醫療集團有限公司
MEIHAO MEDICAL GROUP CO., LTD

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1947

ANNUAL REPORT 2022

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Wang Xiaomin *(Chairman, Chief Executive Officer)*
Ms. Zheng Man *(General Manager)*

Independent Non-executive Directors

Mr. Ng Ming Chee
Ms. Tam Hon Shan Celia
Dr. Zhou Jian

Company Secretary

Mr. Lee Chung Shing (HKICPA, ACCA)

Authorised Representatives Under the Listing Rules

Mr. Wang Xiaomin
Mr. Lee Chung Shing

Audit Committee

Mr. Ng Ming Chee *(Chairman)*
Dr. Zhou Jian
Ms. Tam Hon Shan Celia

Remuneration Committee

Ms. Tam Hon Shan Celia *(Chairperson)*
Mr. Ng Ming Chee
Mr. Wang Xiaomin

Nomination Committee

Mr. Wang Xiaomin *(Chairman)*
Dr. Zhou Jian
Ms. Tam Hon Shan Celia

Principal Share Registrar

Ogier Global (Cayman) Limited
89 Nexus Way
Camana Bay
Grand Cayman KY1-9009
Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wan Chai
Hong Kong

Principal Bank

Bank of Wenzhou, Huihai Branch
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Shishuiliao
Wenzhou City
Zhejiang Province
PRC

Legal Advisers

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Hong Kong

Stock Code

1947

Website

www.meihaomedical.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Meihao Medical Group Co., Ltd (the "**Company**"), I am pleased to present our audited consolidated financial results of the Company and its subsidiaries (collectively, referred to as the "**Group**") for the year ended 31 December 2022 (the "**Year**").

2022 was a milestone for the development of the Group. On 14 December 2022, the Company has successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), marked a momentous leap of the Group to a new stage of our corporate development. The successful listing of shares has reinforced the Group's financial position and allowed us to implement our business strategies. As the largest private dental service provider in Wenzhou, it further enhanced the Group's image and influence in the PRC. Leveraging the advantage of the listing platform and the profound foundation laid in our existing businesses, we shall persistently improve our services provided to our customers in Wenzhou while expanding our business network progressively in PRC.

Looking back in 2022, the sporadic outbreak of COVID-19 had dampened the economic growth in PRC, while many economic activities had almost become stagnant. The GDP in China had only grown by 1 per cent in second quarter 2022, posing challenges to the Chinese economy and also the industry landscape. During the Year, even after the lifting of anti-COVID measures, the allocation of manpower and also the demand for dental services had been affected, which caused slight detriment to the business performance of the Group. However, our Group still managed to increase in revenue and profitability (excluding Listing expenses). Nevertheless, towards the end of 2022, Wenzhou maintained stable growth, the GDP of Wenzhou outperformed many other cities in PRC, broke through the RMB800 billion mark for the first time, reaching RMB802.98 billion. The income of Wenzhou residents has also continued to increase steadily. In 2022, the per capita disposable income of the city's residents was RMB 63,033, a nominal increase of 5.8% over the previous year.

Under the volatile market condition during the Year, the revenue of Group during the Year had still maintained an increase of approximately 21.0% from RMB105.3 million to RMB127.4 million. The financial position of the Group had remained healthy with an improvement in financial liquidity. The cash and cash equivalents of the Group amounted to RMB89.5 million as at 31 December 2022, representing an increase of approximately 116.7% than that of 2021. The net asset of the Group had drastically increased from RMB50.5 million in 2021 to RMB177.8 million in 2022. During the Year, with the seasoned talents and staff, experience and knowledge we possessed, the number of active patients to our dental hospitals had increased from 61,910 to 63,659.

Looking ahead to 2023, the listing of shares of the Company in 2022 has brought the Group to an eminent stage which enables the Group to put forward its business objectives with a better fund raising ability and enhanced reputation in the market. The COVID-19 pandemic seems drawing to a close, with the supportive government policies spurring economic growth, the Group is more than confident to further strengthen and expand our market position in the PRC.

Stepping into this new arena through listing of shares not only bring us with benefit to excel in our business, it also endows us a new role and responsibility in our society. As a pioneer in private dental service provider in Wenzhou, we dedicate our effort to strengthen the internal control system and to bring high quality services with stringent safety controls to our customers. In the year to come, the Group will adopt prudent financial management and cost control and explore suitable business opportunities to drive our business growth.

Acknowledgement

On behalf of the Board, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, and our Directors for their dedication and perseverance, especially in times full of challenges. I would also like to express our sincere gratitude to our customers for their invaluable patronage and to the shareholders for their continued confidence in and support of the Group. I would also like to sincerely thank our business partners, banks for their continuous support throughout the Year. In the years to come, I hope that we will continue working together to achieve new development for the Group and to generate a greater return for our shareholders.

Mr. Wang Xiaomin
Chairman

Hong Kong, 29 March 2023


HKEX
香港交易所
Congratulations
on your listing!
A warm welcome to
Meihao Medical Group Co., Ltd
美皓醫療集團有限公司
1947
美皓醫療集團有限公司
Meihao Medical Group Co., Ltd

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 (2021: RMB105.3 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 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 No. of active patients	2021 No. of active patients
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 RMB'000	**Approx. % of the total revenue %**	Revenue RMB'000	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	**17,199**	**13.5**	1,166	1.1
Total	**127,408**	**100.0**	105,315	100.0

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, but 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 execute on our business strategy, 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 simultaneously 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 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 years 2022 and 2021 indicated:

	For the year ended 31 December			
	2022		2021	
	RMB'000	**% of total cost of sales %**	RMB'000	% of total cost of sales %
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	**49,160**	**100**	38,385	100

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).

Prepayments, other receivables and other assets

The Group's prepayments, other receivables and other assets mainly consisted of (i) other receivables; and (ii) prepayments for long-term assets. Prepayment, other receivables and other assets increased by approximately RMB75.7 million to approximately RMB90.0 million (2021: approximately RMB14.3 million). Such increase was mainly due to increase in other receivables by approximately RMB78.1 million resulting from (i) the IPO proceeds receivable from the underwriter of approximately RMB67.1 million and (ii) the government grant receivable of approximately RMB8.0 million in relation to the Listing.

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.

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 annual report.

Executive Directors

Mr. Wang Xiaomin (王曉敏), aged 49, is the co-founder of our Group and was appointed as a Director on 20 November 2019 and was re-designated as an executive Director on 29 January 2020. Mr. Wang is also the chairman of the Board and chief executive officer responsible for overall strategic planning and overseeing general management and daily operation of our Group. Save for Wenzhou Hospital, Wenzhou Oral Care and Binda Oral Care, Mr. Wang also holds directorships in each of the subsidiaries of our Group. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee.

Mr. Wang is an entrepreneur who has around 18 years of experience in hospital management in the dental service industry in the PRC. Before participating in the private dental service industry, from March 1993 to June 2004, Mr. Wang worked in Property Management Bureau of the Wenzhou People's Government (溫州市房產管理局). With insight in private dental service industry, he established the predecessor company of Wenzhou Hospital, which first obtained the Medical Institution Practising License in September 2004. To allow more flexibility in managing his business as a sole proprietor at the initial stage of development of his business, Mr. Wang instead commenced the provision of private dental services to individuals in Wenzhou through establishing an individual proprietorship enterprise (個人獨資企業), namely Wenzhou Dental Hospital (溫州牙科醫院) (the "**Predecessor Entity**"), in April 2005, where he was responsible for overall strategic planning and overseeing general management and daily operation of the Predecessor Entity. Subsequently in March 2011, Mr. Wang and Ms. Zheng co-founded Wenzhou Hospital, our first operating subsidiary as a platform for the continuation and further expansion of the dental service business, and began our Group's private dental service business, and the Predecessor Entity was dissolved by way of liquidation.

Mr. Wang graduated from China University of Geosciences (中國地質大學) after completion of a two-year professional learning programme of legal studies through online learning in the PRC in April 2005. He then obtained a master's degree in hospital management in September 2008 jointly offered by Nankai University (南開大學) in the PRC and Flinders University in Australia, and completed a professional programme in stomatology from Shandong Liming Technology Vocational College (山東力明科技職業學院) in the PRC in July 2017. Mr. Wang currently holds a number of public positions. Since May 2011, Mr. Wang has been serving as the executive vice president of U.A.E. Wenzhou Chamber of Commerce (阿聯酋溫州商會). In March 2015, he was appointed as the executive vice president of Wenzhou Non-public Medical Institutions Association (溫州市非公立醫療機構協會) and he was further appointed as the president of the stomatology branch of the aforesaid association (溫州市非公立醫療機構協會口腔醫療分會) in January 2016. In April and September 2017, Mr. Wang was appointed as the executive president of Wenzhou Lucheng Overseas Chinese Association (溫州鹿城海外華僑華人聯合會) and the executive chairman of the Youth Committee of Wenzhou Lucheng Overseas Chinese Association (溫州鹿城海外華僑華人聯合會青年委員會), respectively. Later in October 2017, he was further appointed as the executive vice president of Young Overseas Chinese Association of Zhejiang Province (浙江省僑界青年聯合會).

Mr. Wang is the spouse of Ms. Zheng Man, the executive Director and general manager of the Company.

Ms. Zheng Man (鄭蠻), aged 48, is the co-founder of our Group and was appointed as a Director on 20 November 2019 and was re-designated as an executive Director on 29 January 2020. Ms. Zheng is also our general manager principally responsible for overall business development and overseeing administration and public relation affairs of our Group. She also holds directorships in Wenzhou Hospital, Wenzhou Oral Care and Binda Oral Care.

Ms. Zheng has around 18 years of experience in hospital management in the dental service industry in the PRC. Before participating in the private dental service industry, Ms. Zheng had been working as a teacher from September 1995 to May 1997. Similar to her current responsibilities in our Group, Ms. Zheng has been assisting Mr. Wang and responsible for overall business development and overseeing administration and public affairs of his dental service business since September 2004 when the predecessor company of Wenzhou Hospital first obtained the Medical Institution Practising License. In March 2011, Mr. Wang and Ms. Zheng co-founded Wenzhou Hospital, our first operating subsidiary as a platform for the continuation and further expansion of the dental service business, and began our Group's private dental service business.

Ms. Zheng completed a professional programme in stomatology from Shandong Liming Technology Vocational College (山東力明科技職業學院) in the PRC in July 2017.

Ms. Zheng is the spouse of Mr. Wang Xiaomin, the executive Director, chairman and chief executive officer of the Company.

Independent Non-executive Directors

Mr. Ng Ming Chee (黃晞華), aged 57, was appointed as an independent non-executive Director on 8 November 2022. Mr. Ng is responsible for supervising the management of our Group and providing independent judgement to our Board. He is also the chairman of the Audit Committee and a member of the Remuneration Committee.

Mr. Ng has over 30 years of experience in the finance field. He has acted as a chief financial officer, finance director or financial controller of multiple corporations spanning different industries, including a computer components manufacturer, Intel Semiconductor Ltd. HK from April 2001 to February 2003; subsidiaries of an advertising company, Publicis Groupe from July 2004 to November 2008; a sports promotion company, NBA Sports and Culture Development (Beijing) Co., LTD from November 2008 to April 2009; an orthopedic products manufacturer, Trauson Holdings Company Limited from November 2009 to September 2010; a credit services provider, Fullerton Investment & Credit Guarantee Co., Ltd from September 2010 to August 2013; a technology solutions provider, Telstra International Limited from August 2013 to December 2014; and a film production company, Shanghai Oriental DreamWorks Culture Media Co., Ltd. from December 2014 to October 2016. Since June 2018, Mr. Ng has also acted as an executive Director of Intron Technology Holdings Limited (stock code: 1760), whose shares are listed on the Stock Exchange and is principally engaged in the provision of automotive electronics solutions in the PRC.

Mr. Ng graduated with a bachelor's degree in commerce from University of Western Australia in April 1987 and subsequently obtained a master's degree in business administration from Brunel University in the United Kingdom in October 2003. Mr. Ng was admitted as a certified practicing accountant of the Australian Society of Certified Practising Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants in November 1995 and July 2018, respectively.

Ms. Tam Hon Shan Celia (譚漢珊), aged 50, was appointed as an independent non-executive Director on 8 November 2022. Ms. Tam is responsible for supervising the management of our Group and providing independent judgement to our Board. She is also the chairperson of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee.

Ms. Tam has over 25 years of experience in financial management. From June 1991 to May 1994, Ms. Tam was a senior financial clerk at Bates Hong Kong Ltd. From August 1994 to October 1997, Ms. Tam served as an accountant at DraftWorldwide Ltd, where she was responsible for managing the financial matters of the company. From October 1997 to May 1999, Ms. Tam served as an accountant at Baker Norton Asia Ltd, where she was principally responsible for financial matters. From June 1999 to November 2000, Ms. Tam served as a senior accountant at World Pioneer Ltd., where she was responsible for setting up the accounting system and managing the accounting functions of the company. From November 2000 to October 2003, Ms. Tam was the finance and administration manager at Infoserve Technology Hong Kong Ltd., where she was responsible for the management of finance, administration and human resources matters. From October 2003 to August 2004, Ms. Tam served as a senior financial manager at e.Energy Technology Limited where she was responsible for managing the finance department, administration department and human resources department, coordinating the daily financial management and reporting directly to the CEO. From August 2004 to March 2007, Ms. Tam served as the group finance manager at Heal Force Development Limited (香港力康發展有限公司) where she was responsible for the financial management of 20 subsidiaries in Hong Kong and mainland, including budget management, capital control, tax planning, financial analysis, and IPO relevant issues. From April 2007 to September 2013, Ms. Tam served as the head of financial department at NetDragon Websoft Holdings Limited (網龍網絡控股有限公司) (stock code: 0777) where she formulated financial development strategies and internal control system of financial management for the company in accordance with the listing requirements of the Stock Exchange and provided financial analysis and decision-making for the company's operations, business development, and other matters. From in January 2011 to February 2015, Ms. Tam served as the chief financial officer and a vice president at 91 Wireless Websoft Limited, a wholly-owned subsidiary of Baidu Inc., a company listed on NASDAQ (NASDAQ ticker: BIDU), where she was responsible for supervising and managing the finance, legal, human resources, internal control, government relationship and administration departments. From September 2014 to March 2018, Ms. Tam was an independent non-executive director and the chairlady of the audit committee and a member of the nomination committee of Zhejiang Tengy Environmental Technology Co., Ltd (浙江天潔環境科技股份有限公司) (stock code: 1527). Since January 2020, Ms. Tam has served as an independent non-executive director of Icon Culture Global Company Limited (天泓文創國際集團有限公司) (stock code: 8500), where she provides professional financial advice to the board of directors on the company's financial and compliance issues, to ensure compliance with the Listing Rules.

Ms. Tam is a member of The Hong Kong Institute of Certified Public Accountants since April 2002 and a fellow of The Association of Chartered Certified Accountants since November 2006.

Ms. Tam obtained a bachelor's degree in business accounting from University of Lincolnshire and Humberside (currently known as University of Lincoln), United Kingdom in April 2000, and a master's degree in educational counselling from The Education University of Hong Kong in July 2018.

Dr. Zhou Jian (周健), aged 68, was appointed as an independent non-executive Director on 8 November 2022. Dr. Zhou is responsible for supervising the management of our Group and providing independent judgement to our Board. He is also a member of the Audit Committee and the Nomination Committee.

Dr. Zhou has over 30 years of experience in hospital management and clinical research with a focus in the areas of stomatology and dentistry. During the period from 1985 to 2016, Dr. Zhou had held multiple positions at the Stomatology Hospital of Anhui Medical University (安徽醫科大學附屬口腔醫院). From 2000 to 2012, he served as the dean of the aforesaid hospital. Since February 2016, Dr. Zhou has served as the dean of Anhui Swan Lake Stomatological Hospital Holdings Co., Ltd. (安徽天鵝湖口腔醫院股份有限公司).

Dr. Zhou graduated with a bachelor's degree in stomatology from Shanghai Jiao Tong University School of Medicine (上海交通大學醫學院) (formerly known as Shanghai Second Medical University (上海第二醫學院)) in the PRC in December 1976. He further obtained a master's degree in medicine from Xi'an Medical University (西安醫科大學) (currently known as Xi'an Jiaotong University Health Science Centre (西安交通大學醫學部)) in the PRC in December 1985. In June 2014, Dr. Zhou was appointed as the honorary president of the first committee of Anhui Stomatological Association (安徽省口腔醫學會). Since September 2011, Dr. Zhou has served as a standing director of the Chinese Stomatological Association (中華口 腔醫學會). He has also served as the vice president of the Asia Pacific Dental Implantology Association since September 2018. Apart from holding several public position, Dr. Zhou has received a number of recognitions for his achievement in the dental field. Dr. Zhou received the second class award from the State Education Commission of the People's Republic of China (中華人民共和國國家教育委員會) for his research in maxillofacial surgery, and further awarded the third class Science and Technology Progress Award for his achievement in developing techniques for applications in oral and maxillofacial surgery by the Science and Technology Progress Award Review Committee of Anhui Province (安徽省科學技術進步獎評審委員會) in 1998 and 2000, respectively.

Senior Management

Mr. Wang Xiaomin (**王曉敏**). Please refer to the paragraphs headed "Directors — Executive Directors" above in this section for details of biography of Mr. Wang Xiaomin.

Ms. Zheng Man (**鄭鸞**). Please refer to the paragraphs headed "Directors — Executive Directors" above in this section for details of biography of Ms. Zheng Man.

Dr. Chen Haibing (陳海兵), aged 46, joined our Group in March 2011 as the chief physician of the outpatient services of Wenzhou Hospital, and was promoted to the vice dean of Wenzhou Hospital in 2013. He is primarily responsible for overseeing the daily operation and management of outpatient dental services of our Group.

Dr. Chen has over 15 years of experience in the dental field. Prior to joining our Group, Dr. Chen worked as a dentist at the predecessor company of Wenzhou Hospital from 2004 to 2011.

Dr. Chen graduated from Wannan Medical College of Anhui Province (安徽省皖南醫學院) majoring in Stomatology in the PRC in July 1999 and further obtained a master's degree in esthetic dentistry from Loma Linda University in the United States in September 2015. He also completed the one-year master clinician program in esthetic dentistry in the United States in September 2015. From May 2015 to May 2018, Dr. Chen was appointed as a specialist member of the private stomatological branch of Chinese Stomatological Association (中華口腔醫學會民營口腔分會). He was further appointed as the executive vice president of the second council of Wenzhou Dental Association (溫州市牙科學會) in June 2018.

Dr. Zheng Xiaofeng (鄭曉峰), aged 58, joined our Group in June 2014 as a deputy chief physician of orthodontics and cosmetic dentistry of Wenzhou Hospital, and was promoted to the vice dean of Wenzhou Hospital in 2015. He is primarily responsible for overseeing the daily operation and management of the orthodontics and cosmetic dentistry services of our Group.

Dr. Zheng has over 30 years of experience in the dental field. Prior to joining our Group, Dr. Zheng worked at Wenzhou City No. 2 People's Hospital (溫州市第二人民醫院) (currently known as Wenzhou City Centre Hospital (溫州市中心醫院)) as a dentist from September 1987 to May 2014.

Dr. Zheng obtained a bachelor's degree in medicine majoring in stomatology from Zhejiang Medical University (浙江醫科大學) in the PRC in July 1987.

Dr. Zheng served as the vice chairman of the orthodontics and cosmetic dentistry committee and the private stomatological work committee of Wenzhou Stomatological Association (溫州市口腔醫學會) from July 2016 to July 2019 and from November 2018 to November 2019, respectively. In 2017, Dr. Zheng was awarded the Outstanding Achievement in Treating Patients with INVISALIGN® (Construction to the Advancement of INVISALIGN® Treatment) by Asia Pacific Align Technology.

Company Secretary

Mr. Lee Chung Shing (李忠成), was appointed as our company secretary on 3 August 2020. Mr. Lee has over 20 years of experience in providing auditing, financial management, company secretarial and investors relation services to listed companies in Hong Kong. He is currently an assistant vice president of Governance Services of Computershare Hong Kong Investor Service Limited and the joint company secretary/company secretary of various companies, whose shares are listed on the Stock Exchange. Mr. Lee was admitted as an associate of the Hong Kong Institute of Certified Public Accountants in March 1999 and a fellow member of the Association of Chartered Certified Accountants in July 2003. He obtained a bachelor's degree in accountancy from City University of Hong Kong in December 1994 and a master's degree in business administration (financial services) from The Hong Kong Polytechnic University in November 2002.

The board of directors of the Company (the "**Board**" or "**Director(s)**") is pleased to report to its Shareholders on the corporate governance of the Company for the period from 14 December 2022 (the "**Listing Date**") to 31 December 2022 (the "**Reporting Period**").

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 "**CG Code**") as set out in Part 2 of the Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") as the basis of the Company's corporate governance practices, and the CG Code has been applicable to the Company with effect from the Listing Date.

To the best knowledge of the Directors, save and except for deviation from code provision C.2.1 of the CG Code as set out in this report, the Company has complied with all the applicable code provisions set out in the CG Code during the Reporting Period.

Chairman and Chief Executive Officer

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. 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 the 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.

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 of the Directors, that they have complied with the required standards set out in the Model Code during the Reporting Period.

Strategies of the Company

The Company plans to consolidate and expand our market position in the PRC. The Company plans to implement the following strategies:

(1) Expanding the dental medical institutions network in the PRC;

(2) Organic growth in Wenzhou City;

(3) Establishing a dental clinic chain outside Wenzhou under a new trade name;

(4) Acquiring new dental devices and consumables to improve the quality of our dental services offered; and

(5) Establishing a dentistry training centre to maintain our own dentists talent pool and improve the quality of our dental services.

Board of Directors

The Company is headed by an effective Board which oversees the businesses, strategic decisions and performance of the Company and its subsidiaries (the "**Group**") and takes decisions objectively in the best interests of the Company.

The Board regularly review the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

Directors of the Company during the year ended 31 December 2022 and up to the date of this annual report are as follows:

Executive Directors
Mr. Wang Xiaomin *(chairman and chief executive officer)*
Ms. Zheng Man *(General manager)*

Independent Non-executive Directors
Mr. Ng Ming Chee (appointed with effect from 14 December 2022)
Ms. Tam Hon Shan Celia (appointed with effect from 14 December 2022)
Dr. Zhou Jian (appointed with effect from 14 December 2022)

The biographies of the Directors are set out in the section headed "Directors and Senior Management" from pages 14 to 18 of this annual report.

Mr. Wang Xiaomin and Ms. Zheng Man are the spouse of one another. To the best knowledge of the Company, save for the aforementioned spousal relationship, there have been no relationships (neither financial, business nor family or other material/ relevant relationships) among members of the Board as at the date of this report.

Independent Non-executive Directors

Throughout the Reporting Period and up to the date of this annual report, the Board at all times met the requirements of Rules 3.10(1), 3.10(2) and 3.10(A) of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board, with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each independent non-executive Director a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules for the Reporting Period. The Company is of the view that all independent non-executive Directors are independent.

Responsibilities of the Board of Directors and Senior Management

The Board is responsible for the overall leadership of the Group, overseeing the Group's strategic decisions and monitoring business and performance. The functions and duties of the Board include but are not limited to, convening general meetings, reporting on the performance of the Board's work at the general meetings, implementing the resolutions passed at the general meetings, determining business and investment plans, formulating the annual financial budget and final accounts, formulating our proposals for profit distributions, and formulating proposals for increase or reduction of the capital as well as exercising other powers, functions and duties as conferred by the Articles of Association.

The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Company. To oversee particular aspects of the Company's affairs, the Board has established Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference.

All Directors have carried out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The independent non-executive Directors are particularly responsible for supervising and providing an independent judgement on the Board. They take the lead where potential conflicts of interests arise and monitor the Company's performance in achieving agreed corporate goals and objectives and the relevant reporting.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against its Directors, and will conduct annual review on such insurance coverage.

Appointment and Re-appointment of the Directors

All Directors (including independent non-executive Directors) have entered into service contracts/appointment letters with the Company and subject to termination in accordance with their respective terms and may be renewed in accordance with the Articles and Association and the applicable Listing Rules.

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the date thereof, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

All Directors will hold office subject to provision of retirement and rotation of directors under the Articles of Association. Pursuant to Article 108, at each annual general meeting one-third of the Directors for the time being, or, if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an annual general meeting at least once every three years.

Pursuant to Article 112, any Director appointed by the Board to fill a casual vacancy shall hold office only until the next first annual general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next first annual general meeting of the Company after his appointment and shall then be eligible for re-election.

Training and Continuous Professional Development of Directors

In compliance with the code provision C.1.4 of the CG Code, Directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure that they keep abreast of the current regulatory developments and changes.

Every newly appointed Director shall receive a formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the purpose of the Company. Additionally, in preparation for the Listing, Directors have received formal and comprehensive training regarding their responsibilities and obligations under the Listing Rules and relevant laws and regulations as well as the governance policy of the Company.

To ensure that each Director's better understanding in respect of the Company's conduct and business activities to perform their responsibilities as a Director, the Company will arrange appropriate training, including arranging and funding suitable training and professional development programme for the Directors.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a director.

Prior to the Listing, the Company organised a training session conducted by the legal adviser to the Directors in relation to directors' duties and responsibilities, corporate governance and regulatory updates.

Based on the information provided by the Directors, during the year ended 31 December 2022, the Directors received the following trainings:

Name of Directors	Attending seminars and/or conferences relevant to the directors' duties and responsibilities or corporate governance	Reading materials relating to the finance, business management and directors' duties and responsibilities or corporate governance
Executive Directors		
Mr. Wang Xiaomin	✓	✓
Ms. Zheng Man	✓	✓
Independent Non-executive Directors		
Mr. Ng Ming Chee	✓	✓
Ms. Tam Hon Shan Celia	✓	✓
Dr. Zhou Jian	✓	✓

Board Diversity Policy

The Board has adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of skills, experience and diversity perspectives of the Board that are relevant to the business growth support the execution of our business strategy. Pursuant to the board diversity policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board comprises five Directors, including two executive Directors and three independent non-executive Directors. Directors have a balanced mix of knowledge and experiences, including business management, strategic development, provision of dental services, administration and management, finance, auditing and accounting experiences. The Board members also obtained degrees in various majors including hospital management, stomatology and commerce. Furthermore, the ages of our Directors range from 48 to 67 years old. We have also taken, and will continue to take steps to promote gender diversity at all levels of the Company, including but not limited to at the Board and senior management levels, and ensure to have at least one female board member. In this regard, the Board comprises two female Directors, including one executive Director and one independent non-executive Director. We are also committed to adopting similar approach to promote diversity of the management (including but not limited to the senior management) of the Company to enhance the effectiveness of our corporate governance and we will continue to apply the principle of appointments based on merits with reference to the Board diversity policy as a whole.

The Nomination Committee is responsible for ensuring the diversity of the Board. The Nomination Committee will review the board diversity policy (including gender balance) from time to time to ensure its continued effectiveness and we will disclose the implementation of the board diversity policy in our corporate governance report on an annual basis. Having reviewed the Board composition, the Board has complied with the board diversity policy and has achieved board gender diversity.

The Board also recognises the importance of diversity in the workforce (including senior management). The Group will continue to make ways in achieving gender diversity in the workforce at all levels. As at 31 December 2022, the Group's total number of workforce was 304, among which 231 of them were female. For more details, please refer to "Environmental, Social and Governance Report"

The Nomination Committee is responsible for the Board Diversity Policy. The Nomination Committee should review Board Diversity Policy and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives, and to make disclosure or its review results in the annual report of the Company annually.

Board Independence Mechanism

The Company ensures independent views and input are available to the Board via the below mechanisms:

1. the Board composition and the independence of the independent non-executive Directors should be reviewed by the Nomination Committee on an annual basis, in particular the portion of the independent non-executive Directors;

2. a written confirmation was received by the Company under Rule 3.13 of the Listing Rules from each of the independent non-executive Directors in relation to his independence to the Company. The Company considers all its independent non-executive directors to be independent;

3. the Directors who are also directors and/or senior management of the Company's controlling shareholders and/or certain subsidiaries of the controlling shareholders, would abstain from voting in the relevant Board resolutions in relation to the transactions with the controlling shareholders and/or its associates;

4. the chairman of the Board shall meet with independent non-executive Directors at least once annually; and

5. all members of the Board can seek independent professional advice when necessary to perform their responsibilities in accordance with the Company's policy.

The Board reviews the mechanisms for ensuring independent views and input are available to the Board on an annual basis, whether in terms of proportion, recruitment and independence of independent non-executive Directors, and their contribution and access to external independent professional advice.

Delegation by the Board

To oversee particular aspects of the Company's affairs, the Board has established the Board committees, including the Audit Committee, the Remuneration Committee and Nomination Committee (collectively, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

Board meetings and committee meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals in accordance with the CG Code. Notices of no less than 14 days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board meetings and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are sent to the Directors or Board Committee members at least 3 days before the meetings, and all Directors have full and timely access to the senior management for any information to enable them to make informed decisions and perform their duties and responsibilities.

Minutes of meetings shall be kept by the company secretary of the Company with copies circulated to all Directors for information and records. Minutes of Board meetings and meetings of Board Committees are recorded in sufficient detail about the matters considered and decisions reached, including any concerns raised by the Directors or dissenting views expressed. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by the Directors.

Code provision C.2.7 of the CG Code provides that the chairman should at least annually hold a meeting with the independent non-executive Directors without the presence of other Directors. As the Company was only listed on the Stock Exchange on 14 December 2022, shortly before the year ended 31 December 2022, the chairman did not hold any meeting with the independent non-executive Directors since the Reporting Period. At the date of this annual report, such meeting was held.

Code provision C.5.1 of the CG Code provides that Board meetings should be held at least four times a year at approximately quarterly intervals. As the Company was only listed on the Stock Exchange on 14 December 2022, shortly before the year ended 31 December 2022, no Board meeting, Board Committee meetings, or general meeting was held by the Company during the Reporting Period. One meeting of each of the Audit Committee, Nomination Committee, Remuneration Committee, and the Board has been held by the Company subsequent to 31 December 2022 and up to the date of this annual report by the Company.

A summary of the attendance records of each Director at Board meetings, Board Committee meetings and general meetings from the Listing Date to the date of the annual report is set out below:

	No. of meetings attended				
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meeting**
Executive Directors					
Mr. Wang Xiaomin	1/1	—	1/1	1/1	0/0
Ms. Zheng Man	1/1	—	—	—	0/0
Independent Non-executive Directors					
Mr. Ng Ming Chee	1/1	1/1	1/1	—	0/0
Ms. Tam Hon Shan Celia	1/1	1/1	1/1	1/1	0/0
Dr. Zhou Jian	1/1	1/1	—	1/1	0/0

Board Committees

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of these committees are established with defined written terms of reference. The terms of reference of the Board committees are available on the websites of the Company and the Stock Exchange.

Audit Committee

The Company has established the Audit Committee of the Board with terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code as set out in Part 2 of Appendix 14 to the Listing Rules. The Audit Committee comprises three members, all of which are independent non-executive Directors, Mr. Ng Ming Chee (chairman), Dr. Zhou Jian and Ms. Tam Hon Shan Celia.

The primary duties of the Audit Committee are to review and approve the Group's financial reporting process and internal control system.

As the Company was listed on 14 December 2022, shortly before the year ended 31 December 2022, no Audit Committee meetings were held during the Reporting Period.

Subsequent to 31 December 2022 and up to the date of this annual report, one meeting of the Audit Committee was held to discuss and consider the following matters:

- the integrity of the Group's annual accounts for the year ended 31 December 2022 as well as the audit report prepared by the external auditor relating to accounting issues and major issues in course of audit;
- draft results announcement for the year ended 31 December 2022;
- effectiveness and sufficiency of the risk management and internal control systems for the year ended 31 December 2022;
- the contractual arrangements of the Group during the year of 2022;
- the work scope of audit and reporting obligations of external auditor;
- the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and
- the engagement of the external auditor for the year ended 31 December 2022.

Remuneration Committee

The Company has established the Remuneration Committee of the Board with written terms of references in compliance with Rule 3.25 of the Listing Rules and the CG Code as set out in Part 2 of Appendix 14 to the Listing Rules. The Remuneration Committee comprises three members, including two independent non-executive Directors, Ms. Tam Hon Shan Celia (chairperson) and Mr. Ng Ming Chee, and one executive Director, Mr. Wang Xiaomin.

The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management of the Group. The Remuneration Committee is also responsible for reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules.

As the Company was listed on 14 December 2022, shortly before the year ended 31 December 2022, no Remuneration Committee meetings were held during the Reporting Period.

Subsequent to 31 December 2022 and up to the date of this annual report, one meeting of the Remuneration Committee was held to discuss and consider the following matters:

- recommended to the Board the remuneration packages of Executive Directors and senior management in respect of the year ended 31 December 2022;
- recommended to the Board the remuneration packages of Independent Non-executive Directors in respect of the year ended 31 December 2022; and
- reviewed and recommended to the Board the Company's policy and structure for the remuneration of all Directors and senior management.

Remuneration of Directors and senior management

The aggregate remuneration (including salaries, allowances and benefits in kind, pension scheme contributions) paid by the Group to Directors for the year ended 31 December 2022 was approximately RMB851,000. Details of the Directors' remuneration are set out in note 8 to the consolidated financial statements.

The aggregate remuneration paid to the five highest paid individuals of the Group, excluding the Directors, for the year 31 December 2022 was approximately RMB3,186,000. Details of the five highest paid individuals of the Group are set out in note 9 to the consolidated financial statements.

The level of remuneration is mainly based on the experience, scope of duties, work performance and time committed to the Company, prevailing market rates, salaries paid by comparable companies and remuneration packages elsewhere in the Group. The remuneration paid to the senior management of the Company fell within the following band for the year 2022:

	Number of Individuals
HK$0 to HK$1,000,000	4

Nomination Committee

The Company has established the Nomination Committee of the Board with written terms of references in compliance with CG Code as set out in Part 2 of Appendix 14 to the Listing Rules. The Nomination Committee comprises three members, including one executive Director, Mr. Wang Xiaomin (chairman), and two independent non-executive Directors, Ms. Tam Hon Shan Celia and Dr. Zhou Jian.

The primary duties of the Nomination Committee are to make recommendations to the Board on appointment of Directors and the management of the Board succession.

As the Company was listed on 14 December 2022, shortly before the year ended 31 December 2022, no Nomination Committee meetings were held during the Reporting Period.

Subsequent to 31 December 2022 and up to the date of this annual report, one meeting of the Nomination Committee was held to discuss and consider the following matters:

- review the structure, size and composition of the Board;
- assessed the independence of Independent Non-executive Directors; and
- reviewed the retirement and re-appointment of Directors whose terms of office were subject to renew in the annual general meeting, and made recommendation to the Board.

Nomination Policy

The Company has adopted a nomination policy (the "**Nomination Policy**"), which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the Directors. The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its effectiveness.

Selection and recommendation of candidates will be based on the nomination procedures and the process and criteria as set out in the Nomination Policy and a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services, personal integrity and time commitments of the proposed candidates. The Company should also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

Corporate Governance Functions

The Board is responsible for performing the corporate governance functions set out in code provision A.2.1 of the CG Code. The Board recognises that corporate governance should be the collective responsibility of Directors, which include:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Risk Management and Internal Controls

The internal control department of the Company is generally responsible for approving all the risk management procedures and internal control systems. The department oversees the implementation of such procedures and systems by dental hospitals, while the respective departments of dental hospitals are responsible for daily affairs in respect of implementation of such procedures and systems. The employees receive training on relevant policies, standards, protocols and procedures from time to time and are required to strictly follow them in daily operations. At each dental hospital, the management and operations are headed by the management dean who is experienced in management of medical institutions.

The Company has conducted several systems to identify the potential risks in relation to the Company's business, including but not limited to comprehensive quality control systems in dental hospitals, designated personnel responsible for responding to emergency such as power outage at the hospitals, information management system to manage our patients' information, a designated professional team that is in charge of keeping records of the stock of the pharmaceuticals and to ensure proper storage of our pharmaceuticals, and internal control measures to govern the sales and marketing activities.

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee is to oversee the internal control procedures and accounting and financial reporting matters of the Group. Pursuant to its terms of reference, one of the duties and obligations of the Audit Committee is to ensure the Group's compliance with the relevant regulatory requirements and to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters on a regular basis. The Company has not established an internal audit function and is of the view that there is no immediate need to set up an internal audit function in light of the size, nature and complexity of the Group's business. The Group will continue to conduct internal control procedures and enhance its internal control measures, and will review the situation annually.

The Board, as supported by the Audit Committee as well as the management, has reviewed the report from the management and findings from the internal control department, and reviewed the risk management and internal control systems, including the financial, operational and compliance controls. The review process comprises, among other things, meetings with management of business groups, internal control department, and the external auditors, reviewing the relevant work reports and information of key performance indicators, and discussing the major risks with the senior management of the Company. The Company also appointed an independent internal control adviser to conduct the internal control review. The annual review also covered areas on the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions.

The Company has procedures and internal controls for the handling and dissemination of inside information. In practice, employees of the Group who become aware of any events and/or matters which he/she considers potentially inside information, will report to the designated personnel of the Company who, if considered appropriate, will pass such information to the Board for the purpose of considering and deciding whether or not such information constitutes inside information and disclosure of which shall be made immediately.

The Board considered the risk management and internal control systems of the Company during the Reporting Period were effective and adequate.

Anti-Corruption and Whistleblowing Policy

The administration department at the headquarters of the Company is responsible for design and implementation of our anti-bribery and corruption policies and procedures. The Company provides anti-bribery and corruption trainings to the senior management and employees.

The Company has a zero-tolerance policy towards acceptance of any bribes by the dentists and other medical professionals. The Company has established a whistle blower program, including a dedicated hotline and a whistle blower box, to receive reports of corruption charges, with the option of anonymity. Any employee found in breach of our anti-bribery and corruption policies and procedures will be disciplined or dismissed depends on the severity of the case.

With respect to procurement, the Company has centralised the procurement of medical supplies, thereby minimising the risk of corruption or abuse. In addition, the Company requires the suppliers to sign an anti-bribery and corruption undertaking to us ensure their understanding and compliance with our anti-bribery and corruption policies.

Auditors' Remuneration

The total fee paid/payable to the external auditors of the Company RMB1,686,000 in respect of audit services and non-audit services for the year ended 31 December 2022 is set out below:

Categories of the services	**Fee paid/ Payable** RMB
Audit Services	1,686,000
Non-audit Services	—
Total	1,686,000

Directors' Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group in accordance with statutory requirements and applicable accounting standards and for timely financial disclosures under the Listing Rules and any other regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 58 to 60 of this annual report.

Company Secretary

Mr. Lee Chung Shing (李忠成), was appointed as our company secretary on 3 August 2020. Mr. LEE Chung Shing is an assistant vice president in the Governance Services Department of Computershare Hong Kong Investor Services Limited. Biographical information of Mr. LEE Chung Shing is set out in the section headed "Directors and Senior Management" on the page 30 of this annual report. During the Reporting Period, the Company Secretary's primary corporate contact person is Ms. Lin Xiancun, the deputy general manager of the Company. With the assistance of Ms. Lin Xiancun, the Company Secretary provided assistance to the Board and the Directors had access to the advice and services of the Company Secretary on corporate governance and board practices and matters.

During the year ended 31 December 2022, Mr. Lee Chung Shing has received no less than 15 hours of relevant professional training to refresh his skills and knowledge.

Dividend Policy

The Company has adopted a dividend policy (the "**Dividend Policy**"). The factors of determination whether the Board to recommend the payment of dividend to Shareholders including but not limited, the general business conditions, financial condition and results of operation, expected capital requirements and future expansion plans, future prospects, statutory and regulatory restrictions, contractual restrictions on the payment of dividends, Shareholders' interests, and other factors the Board may deem relevant. The Company in the general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board. Any future dividend declaration and distribution by the Company will be at the discretion of the Board. No dividend shall be paid otherwise than out of profits available for distribution.

The Dividend Policy will be reviewed from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2022.

Communication with Shareholders

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance, and strategies. The Company also recognises the importance of timely and non selective disclosure of information on the Company for the Shareholders and investors to make informed investment decisions.

The annual general meeting (the "**AGM**") provides opportunities for communication between the Company and the Shareholders. The chairman of the Board and the chairpersons of the Board Committees of the Company or their delegates will attend the AGMs to answer Shareholders' questions and solicit and understand the views of Shareholders and stakeholders. The Auditor will also attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company maintains a website at www.meihaomedical.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. For the shareholders' inquiry, please refer to the shareholders' rights below.

As there are various means of communication between shareholders and the Company as prescribed above, the Board has considered the existing communication with shareholders is effective during the year ended 31 December 2022.

Shareholders' Rights

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Procedures for Shareholders to Convene Extraordinary General Meeting and Putting Forward Proposal

Pursuant to Article 64 of the Articles of Association, extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of our Company having the right of voting at general meetings, on a one vote per share basis in the share capital of the Company, and the foregoing shareholders shall be able to add resolutions to the meeting agenda. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by our Company. Notwithstanding any provisions in the Articles, any general meeting or any class meeting may be held by means of such telephone, electronic or other communication facilities as to permit all persons participating in the meeting to communicate with each other, and participation in such a meeting shall constitute presence at such meeting.

There are no provisions in the Articles of Association or the Cayman Companies Act for Shareholders to propose new resolutions at general meetings. Shareholders who wish to propose a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

Procedures for shareholders to propose a person for election as a Director

The notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office of the Company. The period for lodgement of the notices required under the Articles of Association will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

Procedure in relation to raising enquiry and concerns

Shareholders of the Company wishing to make any enquiry to the Board may do so in writing to the Company since verbal or anonymous ones would not generally be dealt with by the Company.

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the head office and principal place of business in the PRC of the Company at 197 Fuqian Street, Lucheng District, Wenzhou City, Zhejiang Province, PRC, by mail, telephone (+86 (0577) 88298377) or e-mail (meihaomedical@163.com).

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Changes in Constitution Documents

The Company adopted amended and restated Memorandum and Articles of Association on 8 November 2022, which has been effective from the Listing Date. From the Listing Date up to the of this annual report, the said Memorandum and Articles of Association did not have any change.

The Board is pleased to present this report of the Directors together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

Global Offering

The Company was incorporated in Cayman Islands as an exempted company with limited liability named Meihao Medical Group Co., Ltd on 18 November 2019. The Shares were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 December 2022 (the "**Listing Date**"). The Prospectus of the Company dated 30 November 2022 has been published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.meihaomedical.com).

Principal Business

The Company is an investment holding company. The Group is principally engaged in the provision of dental services through operating dental hospitals in Zhejiang Province. Analysis of the principal activities of the Group during the year ended 31 December 2022 is set out in the note 1 to the consolidated financial statements.

Business Review and Results

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. These discussions form part of this report of the Directors.

The results of the Group for the year ended 31 December 2022 are set out in the consolidated financial statement of profit or loss and other comprehensive income on pages 61 to 62 of this annual report.

Board of Directors

Directors of the Company during the year ended 31 December 2022 and up to the date of this report are as follows:

Executive Directors

Mr. Wang Xiaomin *(chairman and chief executive officer)*
Ms. Zheng Man

Independent Non-executive Directors

Mr. Ng Ming Chee
Ms. Tam Hon Shan Celia
Dr. Zhou Jian

Pursuant to Article 112 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office only until the next first annual general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next first annual general meeting of the Company after his appointment and shall then be eligible for re-election.

Pursuant to Article 108 of the Articles of Association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an annual general meeting by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office.

Mr. Ng Ming Chee and Ms. Tam Hon Shan Celia, will retire and offer themselves for re-election at the forthcoming AGM.

Principal Risks and Uncertainties

The following list is a summary of some major risks and uncertainties involved in the Group's operations:

(1) The brand, market reputation and consumer perception contribute significantly to our continued success and growth. Any failure to maintain, or any damage to, our brand, market reputation and/or consumer perception could materially and adversely affect the results of operations and prospect.

(2) The revenue has historically been entirely dependent on, and will remain heavily dependent on, the operations in Wenzhou. As such, we are especially sensitive to the local conditions and changes in Wenzhou, such as with respect to its economy, laws and regulations and occurrence of any natural disasters, acts of God and epidemics.

(3) The outbreak of the contagious COVID-19 in Zhejiang Province, the PRC and worldwide may have a material adverse effect on the business, results of operation, financial condition and prospects.

(4) The Company conducts its business in a heavily regulated industry and incurs on-going compliance costs and faces potential penalties for non-compliance.

(5) The expansion plans, particularly our plans to expand our business into various new geographic areas, are subject to uncertainties and risks, and we may not be able to successfully manage our expanded operations.

(6) The demand for the orthodontics and cosmetic dentistry services is subject to (i) the disposable income of our patients and their willingness to spend in such dental services, given that these services are not covered by the basic medical insurance programmes, and (ii) our patients' satisfaction of these dental services which is often multifaceted and more subjectively driven.

(7) It recorded accumulated losses historically.

Environmental Policies and Performance

The Group is committed to building a sustainable business and minimising the Group's operational impact on the environment.

During the year ended 31 December 2022, the Group is subject to various environmental protection laws and regulations. For more details, please refer to "Environmental, Social and Governance Report" for Company's environmental performance in respect of environmental protection, social and corporate governance during year ended 31 December 2022.

Environmental, Social and Governance Report

For the year ended 31 December 2022, the Group has complied with the "comply or explain" provisions in the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules.

Further details of the Group's environmental, social and governance matters including environmental policies and performance are set out in the "Environmental, Social and Governance Report", which is to be published and available on the Company's website (www.meihaomedical.com) as well as the Stock Exchange's website (www.hkexnews.hk) at the same time as this annual report.

Compliance with Relevant Laws and Regulations

The Group is subject to various laws and regulations in PRC, in relation to its business in the PRC, including but not limited to the PRC laws and regulations of the requirements for medical institutions and equipment, intellectual property rights, data privacy, data security and cyber security, laws and regulations related to foreign investments in the PRC, laws and regulations related to overseas listing, and other related laws and regulations.

To the best knowledge of the Board and the Company, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group and have obtained all material licenses, approvals and permits from relevant regulatory authorities for the operations of the Group in the PRC. During the year ended 31 December 2022, there had been no material breach of or non-compliance with the applicable laws and regulations by the Group.

Key Relations with Stakeholders

The Group recognises the importance of maintaining a good relationship with its stakeholders, including Shareholders, employees, patients, suppliers, business partners are key to the Group's success. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

Patients

The patients are individuals of all ages. Except Wenzhou Oral Care, each of our private dental hospitals has children department to offer dental services to children under 14 years old. The high quality services and stringent safety controls have led to our low number of patient complaints and high number of repeat patients.

The Group's largest customer and top five customers accounted for approximately 0.15% (2021: 0.18%) and 0.68% (2021: 0.68%) of Group's total revenue respectively.

Suppliers

The suppliers primarily include suppliers for pharmaceuticals, medical consumables, customised products and dental tools. To the best knowledge of the Directors, all the top five suppliers are Independent Third Parties. None of Directors or their respective close associates or any Shareholders, which to the best knowledge of the Directors, own more than 5% of the issued share capital of the Company, had any interest in the five largest suppliers during the Reporting Period. None of five largest suppliers was also the patient during the Reporting Period.

The largest supplier and the top five suppliers for the year ended 31 December accounted for approximately 21.3% (2021: 18.7%) and 60.2% (2021: 47.5%) of the Group's total trade purchases from continuing operations respectively.

Medical Professionals

The qualification and expertise of the dentists, nurses and other medical professionals are vital to the quality of the services and competitiveness. The dentists, nurses and other medical professionals are our employees and regularly practice at one of our dental hospitals on a full-time basis. Occasionally, some of dentists and nurses also practice at more than one dental hospital on an as-needed basis. The Company generally enters into employment contracts with dentists, nurses and other medical professionals. As at 31 December 2022, we had 51 dentists, 65 nurses and 43 other medical professionals.

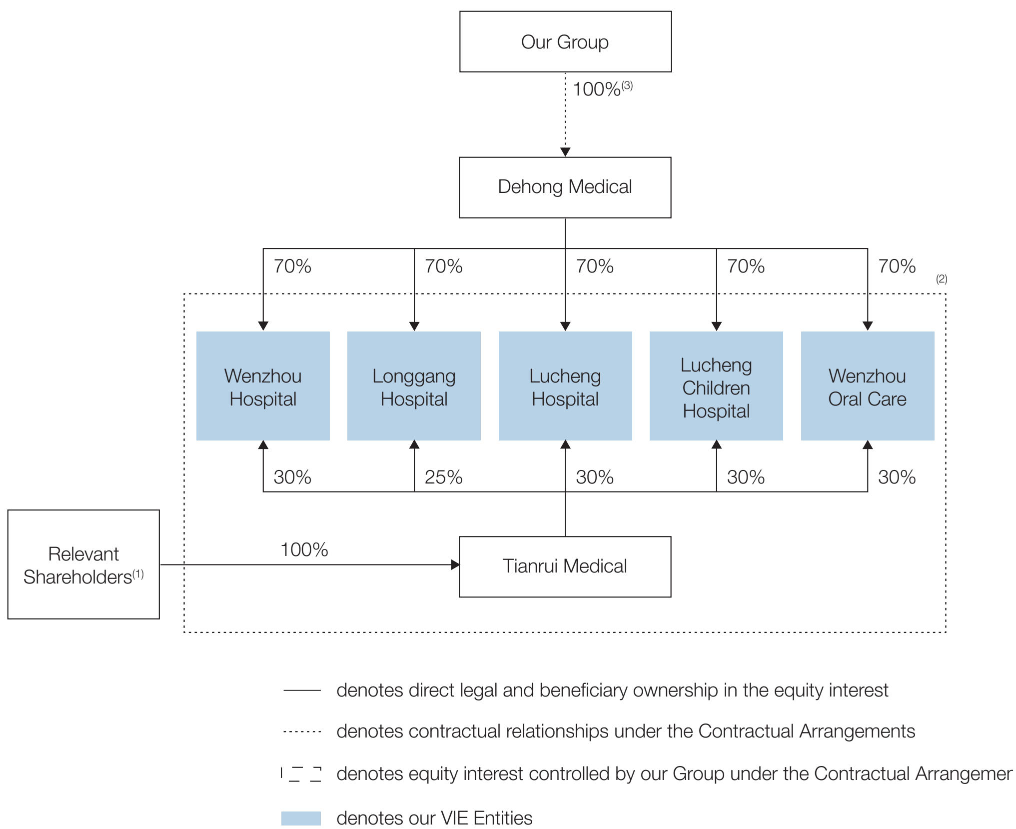
Non-Exempt Continuing Connected Transactions

Contractual Arrangements

Background

The Company is principally engaged in the provision of dental medical services in the PRC. The medical institutions fall within the foreign investment restrictions under current PRC laws and regulations. The Company entered into Contractual Arrangements to enable to exercise control and enjoy substantially all economic benefits of each of Wenzhou Dental Hospital Co., Ltd. (溫州牙科醫院有限公司, "**Wenzhou Hospital**"), Wenzhou Lucheng Stomatological Hospital Co., Ltd. (溫州鹿城口腔醫院有限公司, "**Lucheng Hospital**"), Wenzhou Lucheng Children Stomatological Hospital Co., Ltd. (溫州鹿城兒童口腔醫院有限公司, "**Lucheng Children Hospital**"), Wenzhou Stomatological Hospital Co., Ltd. (溫州口腔醫院有限公司, "**Wenzhou Oral Care**"), and Longgang Stomatological Hospital Co., Ltd. (龍港口腔醫院有限公司, "**Longgang Hospital**") (together, the "**VIE Entities**").

The following simplified diagram illustrates the flow of economic benefits from our VIE Entities to our Group as stipulated under the Contractual Arrangements:



Notes:

(1) *The Relevant Shareholders are Mr. Wang Xiaomin and Ms. Zheng Man, who hold 90% and 10% equity interest in Wenzhou Tianrui Medical Management Co., Ltd. (溫州天睿醫療管理有限公司, "**Tianrui Medical**"), respectively.*

(2) *The Exclusive Operation Services Agreements, the Exclusive Option Agreements, the Equity Pledge Agreements, the Shareholders' Rights Entrustment Agreements, the Powers of Attorney, the Spouse Undertakings and the Supplemental Agreement together form the legal relationship under the Contractual Arrangements.*

(3) *Wenzhou Dehong Medical Management Co., Ltd. (溫州德鴻醫療管理有限公司, "**Dehong Medical**") is an indirect wholly-owned subsidiary of our Group.*

The VIE Entities contributed a significant portion of our Group's financial positions and results of operations. The revenue of VIE Entities amounted to RMB127.4 million for the year ended 31 December 2022, representing approximately 100% of the total revenue of our Group. The total assets of VIE Entities amounted to RMB231.9 million as at 31 December 2022, representing approximately 91.8% of the total assets of our Group.

Summary of the Material Terms of the Contractual Arrangements

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

(1) Exclusive Operation Services Agreements

The Relevant Shareholders, Tianrui Medical and the VIE Entities have entered into exclusive operation services agreement with Dehong Medical on 16 January 2020 and 26 August 2021 (the "**Exclusive Operation Services Agreements**"), pursuant to which, Tianrui Medical and the VIE Entities agreed to engage Dehong Medical as their exclusive provider of technical support, consulting services and other services in exchange for services fees.

In addition, in the absence of a prior written consent of Dehong Medical, during the term of the Exclusive Operation Services Agreements, the Relevant Shareholders, Tianrui Medical and the VIE Entities shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish similar corporation relationships with any third party. Dehong Medical has the right to appoint any third party to provide any or all of the services, or to fulfil its obligations under the Exclusive Operation Services Agreements.

The Exclusive Operation Services Agreements took effect from 29 October 2019 and 26 August 2021, and shall remain valid for three years from the respective dates of the Exclusive Operation Services Agreements and shall, subject to compliance with the Listing Rules, be automatically renewed for three years each time when its term ends, unless being terminated in accordance with the terms therein.

(2) Exclusive Option Agreement

On 16 January 2020 and 26 August 2021, Dehong Medical, the Relevant Shareholders, Tianrui Medical and the VIE Entities entered into exclusive option agreements (the "**Exclusive Option Agreements**").

The Relevant Shareholders and Tianrui Medical undertake to develop the business of the VIE Entities, to ensure the legal compliance of the business operations of the VIE Entities and not to take any action which may affect their asset value, goodwill and validity of business licenses. Furthermore, in the absence of prior written consent of Dehong Medical, (i) the Relevant Shareholders and Tianrui Medical shall not transfer or otherwise dispose of any option under the Exclusive Option Agreements, or create any encumbrances thereon; (ii) Tianrui Medical and the VIE Entities shall not assist in transferring or otherwise disposing of any option under the Exclusive Option Agreements, or creating any encumbrances thereon; and (iii) the Relevant Shareholders and Tianrui Medical (as applicable) directly or indirectly (by itself or through the entrustment of any other natural person or legal person entity) carry out, own or acquire any business compete with or likely compete with the business of Dehong Medical or our Group.

In addition, the Relevant Shareholders, Tianrui Medical and the VIE Entities undertake that, upon Dehong Medical issuing the notice to exercise the option in accordance with the Exclusive Option Agreements, they will implement necessary actions to affect the transfer and relinquish any pre-emptive right, if any. Each of the parties to the Exclusive Option Agreements confirms and agrees that (i) in the event of a dissolution or liquidation of Tianrui Medical and the VIE Entities (as applicable) under the PRC laws, all the residual assets which are attributable to the Relevant Shareholders and Tianrui Medical (as applicable) shall be transferred to Dehong Medical or its designated person(s) at the minimum purchase price permitted under the then applicable PRC law, and each of the Relevant Shareholders, Tianrui Medical and the VIE Entities undertakes that they will return in full the consideration received in relation to such transfer to Dehong Medical or its designated person(s), (ii) in the event of bankruptcy, reorganisation or merger of Tianrui Medical, death, incapacity, bankruptcy or divorce of the Relevant Shareholders or any other event which causes changes to the Relevant Shareholders' shareholding in Tianrui Medical and Tianrui Medical's shareholding in the VIE Entities, (a) the successor of the Relevant Shareholders' equity interest in Tianrui Medical and the successor of Tianrui Medical's equity interest in the VIE Entities shall be bound by the Contractual Arrangements, and (b) any disposal of shareholding in Tianrui Medical and the VIE Entities shall be governed by the Contractual Arrangements unless Dehong Medical consents otherwise in writing.

The Exclusive Option Agreements took effect from 29 October 2019 and 26 August 2021. Each of the Exclusive Option Agreements has an indefinite term and a termination provision which stipulates that unless otherwise required by the then applicable PRC laws and regulations, none of the parties to the agreements (except Dehong Medical) is entitled to unilaterally terminate the agreements.

(3) Shareholders' Rights Entrustment Agreements and the Powers of Attorney

On 16 January 2020 and 26 August 2021, Dehong Medical, the Relevant Shareholders, Tianrui Medical and the VIE Entities entered into shareholders' rights entrustment agreements (the "**Shareholders' Rights Entrustment Agreement**") and the powers of attorney executed by the Relevant Shareholders and Tianrui Medical (the "**Powers of Attorney**") in favour of Dehong Medical (and its successors or liquidators) or a natural person designated by Dehong Medical (the "**Attorney**").

Pursuant to the Shareholders' Rights Entrustment Agreements and the Powers of Attorney, (i) the Relevant Shareholders irrevocably agree to authorise the Attorney to exercise all of its rights and powers as shareholders of Tianrui Medical, (ii) Tianrui Medical irrevocably agrees to authorise the Attorney to exercise all of its rights and powers as a shareholder of the VIE Entities, including but not limited to, the rights to vote in a shareholders' meeting, sign minutes, and arrange all the filings required for the operations of Tianrui Medical and the VIE Entities with the relevant companies registry. As Dehong Medical is a wholly-owned subsidiary of our Company, the terms of the Shareholders' Rights Entrustment Agreements and the Powers of Attorney will effectively give our Company control over all corporate decisions of the VIE Entities, as well as 100% equity interests of Tianrui Medical, Wenzhou Hospital, Lucheng Hospital, Lucheng Children Hospital and Wenzhou Oral Care, and 95% equity interests of Longgang Hospital.

The Shareholders' Rights Entrustment Agreements took effect from 29 October 2019 and 26 August 2021. Each of the Powers of Attorney has an indefinite term and a termination provision which stipulates that unless otherwise required by the then applicable PRC laws and regulations, none of the parties to the agreement (except Dehong Medical) is entitled to unilaterally terminate it.

(4) Equity Pledge Agreement

On 16 January 2020 and 26 August 2021, Dehong Medical, the Relevant Shareholders, Tianrui Medical and the VIE Entities entered into the equity pledge agreements (the "**Equity Pledge Agreements**"). Pursuant to the Equity Pledge Agreements, (i) the Relevant Shareholders agree to pledge all of their respective equity interests in Tianrui Medical, and (ii) Tianrui Medical agrees to pledge all of its equity interests in the VIE Entities, to Dehong Medical to secure performance of all their obligations and the obligations of the VIE Entities under the Contractual Arrangements.

In addition, pursuant to the Equity Pledge Agreements, the Relevant Shareholders and Tianrui Medical undertake to Dehong Medical, among other things, not to transfer their pledged equity interests, not to create or allow any pledge or encumbrance thereon and undertake or permit any action or behaviour that may adversely affect the rights and interest of Dehong Medical without its prior written consent. Tianrui Medical and the VIE Entities undertake to Dehong Medical, among other things, not to consent to any transfer the pledged equity interests or to create or allow any pledge or encumbrance thereon without Dehong Medical's prior written consent.

The Equity Pledge Agreements took effect from 29 October 2019 and 26 August 2021, while the equity pledges took effect on the date of completion of registration. Each of the Equity Pledge Agreements has an indefinite term and a termination provision which stipulates that unless otherwise required by the then applicable PRC laws and regulations, none of the parties to the agreement (except Dehong Medical) is entitled to unilaterally terminate it.

(5) Supplemental Agreement

On 26 August 2021, Dehong Medical, the Relevant Shareholders and Tianrui Medical entered into the supplemental agreement to the Exclusive Option Agreement, the Equity Pledge Agreement and the Shareholders' Rights Entrustment Agreement (the "**Supplemental Agreement**"), pursuant to which the parties thereto agreed to supplement certain terms and references of the aforesaid agreements to reflect the inclusion of Wenzhou Oral Care as one of the VIE Entities under the Contractual Arrangements.

The Supplemental Agreement took effect from 26 August 2021. Save for the terms and references amended by the Supplemental Agreement, all other terms and conditions of the Exclusive Option Agreement, the Equity Pledge Agreement and the Shareholders' Rights Entrustment Agreement remain in full force and effect.

(6) Spouse Undertaking

The spouse of each of the Relevant Shareholders has signed an undertaking (the "**Spouse Undertakings**") to the effect that (i) the respective interests of the Relevant Shareholders in Tianrui Medical (together with any other interests therein) do not fall within the scope of joint possession; and (ii) each of the spouses has no right to or control over such interests of the respective persons and will not have any claim on such interests.

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between the Group and VIE Entities during the year ended 31 December 2022. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended 31 December 2022.

As at 31 December 2022, the Company had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through Tianrui Medical and the VIE Entities under the Contractual Arrangements. The Directors believe that each of the agreements under the Contractual Arrangements is enforceable under the PRC laws and regulations except that (i) the Wenzhou Arbitration Commission (溫州仲裁委員會) has no power to grant injunctive relief, nor will it be able to order the winding up of Tianrui Medical and the VIE Entities pursuant to the current PRC laws; (ii) interim remedies or enforcement orders granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognised or enforceable in the PRC; (iii) the exercise of the exclusive options by Dehong Medical in accordance with the Exclusive Option Agreements, shall be subject to the then effective PRC laws and regulations and relevant approval procedures (if applicable); (iv) there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations; and (v) the Equity Pledge Agreements are subject to registration requirements with the relevant Administration for Industry and Commerce (the registration for which had been completed).

Reasons for Adopting the Contractual Arrangements

The Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019) (外商投資准入特別管理措施(負面清單) (2019年版)) (the "**2019 Negative List**") stipulate that foreign investors are permitted to invest only in Sino-foreign equity and cooperative joint venture medical institutions. However, the 2019 Negative List does not expressly stipulate the percentage of equity interest or interest indirectly held by a foreign investor in a medical institution by means of domestic investment by a foreign-invested enterprise. On 23 June 2020 and 27 December 2021, the NDRC and the MOFCOM have jointly promulgated the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020) (外商投資准入特別管理措施(負面清單) (2020年版)) (the "**2020 Negative List**") and the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021) (外商投資准入特別管理措施(負面清單) (2021年版)) (the "**2021 Negative List**") respectively. The 2020 Negative List and the 2021 Negative List came into effect on 23 July 2020 and 1 January 2022, respectively, and the 2021 Negative List has replaced the 2019 Negative List and the 2020 Negative List. According to the 2021 Negative List, foreign investors are permitted to invest in medical institutions in the form of joint ventures.

Pursuant to the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法) (the "**Interim Administrative Measures on Sino-Foreign Equity Medical Institutions**"), which allow foreign investors to partner with Chinese medical entities to establish a healthcare institution in China by means of equity joint venture or cooperative joint venture. Establishment of equity joint venture or cooperative joint venture are subject to certain requirements, including the minimum 30% equity percentage held by the Chinese partner in the joint venture. These investor qualification requirements and establishment criteria may be relaxed where the foreign-invested medical institution is to be established in Central and Western China or areas inhabited by more elderly, ethnic-minorities and poorer demographics.

The Company is primarily engaged in the provision of dental medical services in the PRC. According to the Negative Lists, medical institutions fall within the "restricted" investment category, and therefore may not be held 100% by foreign investments. Foreign investments are also restricted to the form of joint venture, except for investments by qualified service providers as defined under Notice of Expanding the Territorial Scope for Hong Kong and Macao Service Suppliers to Establish Wholly-Owned Hospitals in the Mainland (關於擴大香港和澳門服務提供者在內地設立獨資醫院地域範圍的通知), the Mainland and Hong Kong Closer Economic Partnership Arrangement and its supplemental Agreements (內地與香港關於建立更緊密經貿關係的安排及其補充協議), Interim Measures for the Administration of Hong Kong and Macao Service Providers' Establishment of Sole Proprietorship Hospitals in the Mainland (香港和澳門服務提供者在內地設立獨資醫院管理暫行辦法), and Notice Concerning Establishment of Medical Institutions in the Mainland by Hong Kong and Macao Service Providers (關於香港和澳門服務提供者在內地設立醫療機構有關問題的通知).

The Contractual Arrangements are narrowly tailored to address solely the Foreign Ownership Restriction as set forth in the above paragraph. The Contractual Arrangements are also narrowly tailored to achieve the business purposes of our Company and to minimise the potential for conflict with relevant PRC laws and regulations.

The Contractual Arrangements enable Dehong Medical to obtain substantially all economic benefits of the VIE Entities, except for the 5% equity interest in Longgang Hospital which is held by an independent third party. Accordingly, our Company regards Wenzhou Hospital, Lucheng Hospital, Lucheng Children Hospital and Wenzhou Oral Care as wholly-owned subsidiaries and Longgang Hospital as a 95% owned subsidiary.

Risks relating to the Contractual Arrangements

There are certain risks associated with the Contractual Arrangements, including:

(1) If the PRC government deems that the Contractual Arrangements in relation to the VIE Entities and their subsidiaries do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish the interests in those operations.

(2) The shareholders of VIE Entities may have conflict of interest with us, which may materially and adversely affect our business, financial condition and results of operations.

(3) Certain terms of Contractual Arrangements may not be enforceable under PRC laws.

(4) The Contractual Arrangements may be considered by the PRC tax authorities as requiring transfer pricing adjustment.

(5) If we exercise the option to acquire equity ownership and assets of the VIE Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.

(6) PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the proceeds of the Global Offering to make loans to PRC subsidiaries, or to make additional capital contributions to PRC subsidiaries.

Please refer to "Risk Factors — Risks Relating to our Contractual Arrangements" in the Prospectus for details.

Actions taken by the Group to mitigate the risks

The Group will adopt the following measures to ensure the effective operation of the Group with the implementation and compliance of the Contractual Arrangements:

(1) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

(2) the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(3) the Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports and interim reports to update our Shareholders and potential investors; and

(4) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements and the legal compliance of Dehong Medical, Tianrui Medical and the VIE Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waiver from the Stock Exchange and Annual Review

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of the Company under the Listing Rules upon the Listing as certain parties to the Contractual Arrangements, including Mr. Wang Xiaomin, Ms. Zheng Man and Tianrui Medical are connected persons of the Group pursuant to Chapter 14A of the Listing Rules.

In view of the Contractual Arrangements, in respect of transactions contemplated under the Structured Contracts and any New Intergroup Agreements, the Group has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares of the Company are listed on the Stock Exchange and Tianrui Medical and the VIE Entities will continue to be treated as the Company's subsidiaries subject to the following conditions:

(1) Save as described in paragraph (4) below, no change to the Contractual Arrangements (including with respect to any fees payable to Dehong Medical thereunder) will be made without the approval of the independent non-executive Directors;

(2) Save as described in paragraph (4) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders;

(3) The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by Tianrui Medical and the VIE Entities;

(4) On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on one hand, and Tianrui Medical, the VIE Entities and the Relevant Shareholders, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of our Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements; and

(5) The Group will disclose details relating to the Contractual Arrangements on an on-going basis.

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

(1) the transactions carried out during the year ended 31 December 2022 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and that the profit generated by Tianrui Medical and our VIE Entities has been substantially retained by our Group;

(2) no dividends or other distributions have been made by Tianrui Medical to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;

(3) no dividends or other distributions have been made by the VIE Entities to Tianrui Medical which are not otherwise subsequently assigned or transferred to our Group; and

(4) any new contracts entered into, renewed or reproduced between us on one hand and Tianrui Medical, the VIE Entities and the Relevant Shareholders, on the other hand, during the year ended 31 December 2022 are fair and reasonable, or advantageous to our Shareholders, so far as we are concerned and in the interests of our Shareholders as a whole.

The auditor of the Company has confirmed in a letter to the Board with a copy to the Stock Exchange that, with respect to Contractual Arrangements:

(1) nothing has come to their attention that causes the auditor to believe that the Contractual Arrangements have not been approved by the Board;

(2) nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and

(3) nothing has come to their attention that causes the auditor to believe that no dividends or other distributions have been made by the VIE Entities to the holders of their equity interests which are not otherwise subsequently assigned or transferred to the Group.

For details of the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements" and "Connected Transactions" in the Prospectus.

Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by the Shareholders and adopted by the Company on 8 November 2022.

1. Purpose

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph 2 below) for their contribution to, and continuing efforts to promote the interests of, our Group and for such other purposes as the Board may approve from time to time.

2. Eligible Participants

The Board may, at its absolute discretion, offer eligible persons (being any director or employee (whether full time or part time), consultant or adviser of our Group who in the sole discretion of the Board has contributed to and/or will contribute to our Group) (the "**Eligible Persons**") to subscribe for such number of Shares in accordance with the terms of the Share Option Scheme.

3. Maximum number of Shares

The maximum aggregate number of Shares which may be issued upon exercise of all options pursuant to the Share Option Scheme is 60,000,000 Shares at the date of this annual report, which represents 10% of the issued share of the Company at the date of this annual report.

The number of share options available for grant under the Share Option Scheme was 60,000,000 as at 14 December 2022 and 31 December 2022, respectively.

No options have been granted since the adoption of the Share Option Scheme; therefore, no shares are expected to be issued in relation to the share options, and the proportion of such shares divided by the weighted average number of shares in issue would be nil.

4. Maximum number of options to any one individual

No option shall be granted to any Eligible Person if, at the relevant time of grant, the number of Shares issued and to be issued upon exercise of all Options (granted and proposed to be granted, whether exercised, cancelled or outstanding) to the Relevant Eligible Person in the 12-month period expiring on the date on which an offer of the grant of an option under the Share Option Scheme is made to the Relevant Eligible Person would exceed 1% of the total number of Shares in issue at the time, unless:

(1) such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, by ordinary resolution of the Shareholders in general meeting, at which the Relevant Eligible Person and his associates abstained from voting;

(2) a circular regarding the grant has been despatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules; and

(3) the number and terms (including the Subscription Price) of such options are fixed before the general meeting of our Company at which the same are approved.

5. Time of exercise of option

Subject to the provisions of the Listing Rules and other applicable laws and regulations, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the offer Letter) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the option can be exercised.

The date of grant of any particular option is the date on which the offer relating to such option is duly accepted by the grantee in accordance with the Share Option Scheme. An option may be exercised according to the terms of the Share Option Scheme and the offer in whole or in part by the grantee (or his personal representatives) before its expiry by giving notice in writing to our Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised provided that the number of Shares shall be equal to the size of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. Such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption of the Share Option Scheme by Shareholders by resolution at a general meeting.

6. **Term of Share Option Scheme**

Share Option Scheme shall be valid and effective for a period of ten (10) years commencing on the date of adoption of such scheme.

As at 31 December 2022, the remaining life of Share Option Scheme is approximately 9 years 10 months.

7. **Price of Shares**

The subscription price for a Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be a price solely determined by the Board and notified to all Eligible Person and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to grant option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer to grant option (the "**Offer Date**") (provided that the new issue price shall be used as the closing price for any business day falling within the period before the listing of Shares where our Company has been listed for less than five business days as of the Offer Date); and (iii) the nominal value of the Share. A consideration of RMB1.0 is payable on acceptance of the offer of an option or options.

Since the adoption of the Share Option Scheme to 31 December 2022, no option was granted, exercised, cancelled expired or lapsed and there is no outstanding share option under the Share Option Scheme.

Related Party Transaction

Details of the related party transactions of the Group for the year ended 31 December 2022 are set out in note 28 to the consolidated financial statements in this annual report. Such transactions were either (i) fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules; or (ii) did not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules (as amended from time to time).

Share Capital

Details of movements in the share capital of the Company during the year ended 31 December 2022 are set out in note 24 to the consolidated financial statements in this annual report.

As at 31 December 2022, the issued share capital of the Company was 600,000,000 shares.

Reserve

Details of movements in the reserves of the Group during the year ended 31 December 2022 are set out on page 65 in the consolidated financial statement of changes in equity in this annual report.

Distributable Reserves

As at 31 December 2022, the Company's reserve available for distribution to shareholders amounted to approximately RMB92.4 million.

Bank Loans and Other Borrowings

As at 31 December 2022, the Company had no bank loans and other borrowings (as at 31 December 2021: Nil).

Property, Plant and Equipment

Details of the movements in property and equipment of the Group during the year ended 31 December 2022 are set out in note 13 to the consolidated financial statements.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 1 to the consolidated financial statements.

Debenture Issued

The Group did not issue any debenture during the year ended 31 December 2022.

Final Dividend

The Board does not recommend the distribution of a final dividend and there is no dividend payment for the year ended 31 December 2022 (2021: Nil).

Charitable Donations

The Group did not make charitable donations during the year ended 31 December 2022.

Equity-Linked Agreement

Save as disclosed in the section headed "Share Option Scheme" as set out in this report of the Directors, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Group, or existed during the year ended 31 December 2022.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

Tax Relief and Exemption

The Directors are not aware of any tax relief and exemptions available to the Shareholders by reason of their holding of the Company's securities.

Permitted Indemnity

Pursuant to the Articles of Associations and subject to the applicable laws and regulations, every Director and other officer shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, expenses and liabilities incurred or to be incurred by him in the execution and discharge his duties or in relation thereto.

Such permitted indemnity provision has been in force for the year ended 31 December 2022. The Company has arranged appropriate liability insurance coverage for the Directors since the Listing Date.

Service Agreements of Directors

Each Director has entered into a service contract with the Company for a term of three years commencing from the date thereof, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors has entered into any service contract/letter of appointment with the Company or any of its subsidiaries which was not determinable by the Company within one year without payment of compensation (other than statutory compensation).

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Employees and Remuneration Policy

As at 31 December 2022, the total number of employees of the Group was 304. The Company has established a remuneration committee for developing remuneration policy, reviewing the remuneration structure of the Directors and senior management of the Group. Total staff costs (including Directors' emoluments, salaries, bonus, equity-settled share-based payment expenses) were approximately RMB38.8 million.

The remuneration package of the employees including salary, bonus, allowance, benefits in kind (including contributions to pension schemes) and pension or allowance on the retirement. 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 also adopted Share Option Scheme, details of which are set out in the section headed " Share Option Scheme" as set out in this report of the Directors.

The Company confirms that none of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors or five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent and remain so as of the date of this annual report.

Directors' Rights to Acquire Share or Debentures

Save as otherwise disclosed in this annual report, at no time during the year, was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed for the year ended 31 December 2022.

Directors' Interests in Competing Business

None of the Directors or their respective close associates had engaged in or had any interest in any business, apart from the Group's business, which competed or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2022.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at December 31, 2022, the interests and short positions of the Directors and the chief executive of the Company in any of the Shares, underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, recorded in the register referred to therein; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in Shares and underlying Shares:

Name of Director or Chief Executive	Nature of Interest	Number of Shares	Approximately Percentage[1]
Wang Xiaomin[2][4]	Interests in controlled corporation Interest of spouse	427,500,000 (L)	71.25%
Zheng Man[3][4]	Interests in controlled corporation Interest of spouse	427,500,000 (L)	71.25%

Notes:

(L) denotes long position

(1) The calculation is based on the total number of 600,000,000 issued Shares as at 31 December 2022.

*(2) Each of JTC (China) Co., LTD (健齒康(中國)有限公司) ("**JTC BVI**") and Ricon (China) Co., LTD (瑞康(中國)有限公司) ("**Ricon BVI**") is directly and wholly owned by Mr. Wang Xiaomin. Mr. Wang Xiaomin is therefore deemed to be interested in all the Shares held by each of JTC BVI and Ricon BVI.*

*(3) Meihao (China) Co., LTD (美皓(中國)有限公司) ("**Meihao BVI**") is directly and wholly owned by Ms. Zheng Man. Ms. Zheng Man is therefore deemed to be interested in all the Shares held by Meihao BVI.*

(4) Mr. Wang Xiaomin and Ms. Zheng Man are the spouse of one another, and are therefore deemed to be interested in any Shares in which one another is interested.

Save as disclosed above, so far as the Directors are aware, as at 31 December 2022, none of the Directors or chief executive of the Company had any interest or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code.

Substantial Shareholder's Interests and Short Positions in Shares and Underlying Shares

As at December 31, 2022, so far as is known to Directors or chief executive of the Company are aware, the following persons (other than the Directors and chief executive of the Company) had or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Substantial Shareholders	Nature of Interest	Number of Shares	Approximately Percentage[1]
JTC BVI[2]	Beneficial owner	337,500,000 (L)	56.25%
Ricon BVI[2]	Beneficial owner	45,000,000 (L)	7.5%
Meihao BVI[3]	Beneficial owner	45,000,000 (L)	7.5%

Notes:

(L) denotes long position

(1) The calculation is based on the total number of 600,000,000 issued Shares as at 31 December 2022.

(2) Each of JTC BVI and Ricon BVI is directly and wholly owned by Mr. Wang Xiaomin.

(3) Meihao BVI is directly and wholly owned by Ms. Zheng Man.

Save as disclosed herein, as at 31 December 2022, the Company had not been notified by any person (other than the Directors or the chief executive of the Company) who had an interest or short position in the Shares or the underlying Shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Non-competition Undertakings

Each of our Controlling Shareholders (Mr. Wang Xiaomin, Ms. Zheng Man, JTC BVI, Ricon BVI and Meihao BVI, each a "**Covenantor**" and collectively as the "**Covenantors**") has given an irrevocable non-competition undertaking in favour of the Company (for itself and for benefit of each of the members of the Group) under the deed of non-competition dated 8 November 2022 (the "**Deed of Non-competition**") pursuant to which, each of the Covenantors has irrevocably, unconditionally and severally undertaken with the Company that, among others, with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange.

After reviewing the annual declaration and relevant information provided by Controlling Shareholders, the independent non-executive Directors were of the view, to the best of their knowledge, that proper compliance on and enforcement of the undertakings under Deed of Non-competition was in place during the period from the Listing Date up to 31 December 2022.

Please refer to "Relationship with our Controlling Shareholders — Deed of Non-Competition" in the Prospectus for details.

Purchase, Sale or Redemption of the Listed Securities

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

Directors' and Controlling Shareholders' Interests in Transactions, Agreements & Contracts of Significance

Save as disclosed in this annual report, no transaction, arrangement or contract of significance (including provision of services) in relation to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which any Director or any entity connected with a Director or the controlling shareholders of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the year ended 31 December 2022 under review.

Use of Net Proceeds from Listing

The Company's Shares were listed on the Stock Exchange on 14 December 2022 by way of Global Offering, raised total net proceeds of approximately HK$74.9 million (the "**Net Proceeds**") from the Global Offering after deduction of the underwriting fees and other estimated expenses payable by the Company in connection with the Global Offering. There was no change in the intended use of net proceeds as previously disclosed in the Prospectus and the Company intends to utilise the additional net proceeds on a pro rata basis for the purposes as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The Company will gradually utilise the residual amount of the net proceeds in accordance with such intended purposes based on actual business needs.

As of 31 December 2022, none of the proceeds from the global offering has been utilized. The table below sets forth a detailed breakdown and description of the use of net proceed as at 31 December 2022:

Intended use of Net Proceeds	Allocation of Net Proceeds (HK$ million)	Percentage of Total Net Proceeds	Amount of Net Proceeds utilised up to 31 December 2022 (HK$ million)	Balance of Net Proceeds unutilised as at 31 December 2022 (HK$ million)	Intended timetable for use of the unutilised Net Proceeds *(Note)*
Potential strategic acquisition of two dental hospitals in the PRC	21.5	28.6%	–	21.5	6/2024
Funding the capital expenditure and initial operating costs for the development of Wenzhou Oral Care	20.2	27%	–	20.2	12/2023
Funding the capital expenditure and initial operating costs for establishing Lucheng Children Hospital in Wenzhou	10.6	14.1%	–	10.6	6/2023
Working capital and other general corporate purposes	7.5	10%	–	7.5	12/2024
Funding the capital expenditure and initial operating costs for establishing a dental clinic chain outside Wenzhou under a new trade name	6.4	8.6%	–	6.4	12/2024
Establishing a dentistry training centre to maintain our own dentists talent pool and improve the quality of our dental services	4.0	5.4%	–	4.0	12/2023
Acquiring new dental devices and consumables to improve the quality of our dental services offered	2.5	3.3%	–	2.5	3/2024
Renovating our Wenzhou Hospital in order to expand its children dental department	2.2	3%	–	2.2	3/2023

Note: *The expected timeline for utilising the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions*

Annual General Meeting

The AGM will be scheduled on Friday, 9 June 2023. A notice convening the AGM of the Company will be issued and dispatched to the Shareholders of the Company 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 branch 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.

Corporate Governance Practise

The Company is committed to maintaining a high level of corporate governance practices.

The Company's corporate governance report is set out on pages 19 to 32 in this annual report. Details of each of the Audit Committee, the Remuneration Committee and the Nomination Committee are given in the same report. The Audit Committee has reviewed and discussed with management the annual results and the consolidated financial statements for the year ended 31 December 2022.

Public Float

As at the date of this report and based on the information publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the public float as required under the Listing Rules.

Audit Committee

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

The Audit Committee has, together with the management of the Company, reviewed the 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 report is in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

Auditor

The consolidated financial statements of the Group for the year ended 31 December 2022 have been audited by Ernst & Young, Certified Public Accountants, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM. There was no change in auditor of the Company in the preceding three years.

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

EY 安永

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To the shareholders of Meihao Medical Group Co., Ltd
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Meihao Medical Group Co., Ltd (the "Company" , formerly known as China Dental Medical Group Co., Ltd) and its subsidiaries (the "Group") set out on pages 61 to 119, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	**How our audit addressed the key audit matter**
Measurement of revenue from the rendering of orthodontics and cosmetic dentistry services	
Revenue from the rendering of orthodontics and cosmetic dentistry services for the year ended 31 December 2022 amounted to RMB19,947,000, representing 15.7% of the Group's total revenue. Revenue from the rendering of orthodontics and cosmetic dentistry services is recognised over time, using an input method to measure progress towards complete satisfaction of the service. The input method recognises revenue on the basis of the staff costs and costs of inventories, consumables and customised products expended relative to the total expected costs to complete the service. Significant judgements and estimation from the management were required in determining the accuracy of the progress towards complete satisfaction of the performance obligation of each contract at the reporting date. This measurement of revenue was significant to our audit because the process was complex and involved significant judgements and estimates. The Group's disclosure about the measurement of revenue from the rendering of orthodontics and cosmetic dentistry services is included in notes 2.4 and 3 to the consolidated financial statements.	We obtained an understanding of and evaluated the Group's key internal controls in relation to the estimation of the total expected costs to complete the orthodontics and cosmetic dentistry services. We assessed the appropriateness of the methodology used by management to estimate the progress towards complete satisfaction of the orthodontics and cosmetic dentistry services. We assessed the reasonableness of the assumptions used by management when estimating the total expected costs to complete the orthodontics and cosmetic dentistry services by comparing estimated future costs with the Group's historical data, including the staff costs and costs of inventories, consumables and customised products, and the historical data were tested to the supporting documents on a sample basis. In order to assess the historical effectiveness of management's estimation process, we compared the outcome of prior year estimations of the total expected costs to complete the orthodontics and cosmetic dentistry services made by management to the actual cost incurred to complete the services on a sample basis. We checked the mathematical accuracy of the calculation of the progress towards complete satisfaction of the performance obligation and the measurement of revenue from the rendering of orthodontics and cosmetic dentistry services.

Other Information Included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Directors' Report and the Corporate Governance Report, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Statement, the Directors' Report and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	*5*	**127,408**	105,315
Cost of sales		**(49,160)**	(38,385)
Gross profit		**78,248**	66,930
Other income and gains	*5*	**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	*7*	**(1,886)**	(2,471)
PROFIT BEFORE TAX	*6*	**40,202**	43,667
Income tax expense	*10*	**(11,632)**	(11,490)
PROFIT FOR THE YEAR		**28,570**	32,177
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		**(81)**	—
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(81)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**28,489**	32,177

	Note	2022 RMB'000	2021 RMB'000
Profit attributable to:			
Owners of the parent		**28,456**	32,069
Non-controlling interests		**114**	108
		28,570	32,177
Total comprehensive income attributable to:			
Owners of the parent		**28,375**	32,069
Non-controlling interests		**114**	108
		28,489	32,177
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*12*	**RMB6.22 cents**	RMB7.13 cents

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**28,076**	27,679
Right-of-use assets	*14(a)*	**36,358**	43,578
Intangible assets	*15*	**528**	531
Deferred tax assets	*23*	**5,205**	3,557
Prepayments, other receivables and other assets	*18*	**6,044**	3,088
Total non-current assets		**76,211**	78,433
CURRENT ASSETS			
Inventories	*16*	**2,497**	2,363
Trade receivables	*17*	**523**	600
Prepayments, other receivables and other assets	*18*	**83,958**	11,187
Cash and cash equivalents	*19*	**89,529**	41,283
Total current assets		**176,507**	55,433
CURRENT LIABILITIES			
Trade payables	*20*	**5,475**	5,717
Lease liabilities	*14(b)*	**6,898**	9,376
Other payables and accruals	*21*	**15,787**	15,959
Contract liabilities	*22*	**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

	Notes	2022 RMB'000	2021 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**211,490**	86,109
NON-CURRENT LIABILITIES			
Lease liabilities	*14(b)*	**29,718**	35,163
Contract liabilities	*22*	**4,021**	403
Total non-current liabilities		**33,739**	35,566
Net assets		**177,751**	50,543
EQUITY			
Equity attributable to owners of the parent			
Share capital	*24*	**5,365**	—
Reserves	*25*	**172,007**	50,278
		177,372	50,278
Non-controlling interests		**379**	265
Total equity		**177,751**	50,543

Mr. Wang Xiaomin
Director

Ms. Zheng Man
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to owners of the parent								
	Share capital RMB'000 *(note 24)*	Merger reserve RMB'000 *(note 25)*	Capital reserve RMB'000 *(note 25)*	Statutory surplus reserve RMB'000 *(note 25)*	Exchange fluctuation reserve RMB'000 *(note 25)*	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	—	12,016	8,450	5,853	4	(8,114)	18,209	157	18,366
Profit and total comprehensive income for the year	—	—	—	—		32,069	32,069	108	32,177
Transfer to statutory surplus reserve	—	—	—	2,991	—	(2,991)	—	—	—
At 31 December 2021	—	12,016	8,450	8,844	4	20,964	50,278	265	50,543

	Attributable to owners of the parent									
	Share capital RMB'000 *(note 24)*	Share premium* RMB'000 *(note 25)*	Merger reserve* RMB'000 *(note 25)*	Capital reserve* RMB'000 *(note 25)*	Statutory surplus reserve* RMB'000 *(note 25)*	Exchange fluctuation reserve* RMB'000 *(note 25)*	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022	—	—	12,016	8,450	8,844	4	20,964	50,278	265	50,543
Profit for the year	—	—	—	—	—	—	28,456	28,456	114	28,570
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	(81)	—	(81)	—	(81)
Total comprehensive income for the year	—	—	—	—	—	(81)	28,456	28,375	114	28,489
Capitalisation issue	4,024	(4,024)	—	—	—	—	—	—	—	—
Issue of shares for the initial public offering	1,341	111,314	—	—	—	—	—	112,655	—	112,655
Share issue expenses	—	(13,936)	—	—	—	—	—	(13,936)	—	(13,936)
Transfer to statutory surplus reserve	—	—	—	—	1,871	—	(1,871)	—	—	—
At 31 December 2022	5,365	93,354	12,016	8,450	10,715	(77)	47,549	177,372	379	177,751

* *These reserve accounts comprise the consolidated reserves of RMB172,007,000 (2021: RMB50,278,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**40,202**	43,667
Adjustments for:			
Finance costs	*7*	**1,886**	2,471
Bank interest income	*5*	**(1,651)**	(1,211)
Loss on disposal of items of property, plant and equipment	*6*	**58**	67
Depreciation of property, plant and equipment	*13*	**6,128**	4,491
Depreciation of right-of-use assets	*14(a)*	**6,972**	6,387
Amortisation of intangible assets	*15*	**208**	98
Impairment of trade receivables, net	*17*	**(27)**	(311)
Covid-19-related rent concessions from lessors	*14(c)*	**(564)**	—
Gain on termination of leases	*14(c)*	**—**	(258)
Exchange differences, net		**(753)**	—
		52,459	55,401
Increase in inventories		**(134)**	(780)
Decrease in trade receivables		**104**	421
Increase in prepayments, other receivables and other assets		**(7,562)**	(1,661)
(Decrease)/increase in trade payables		**(242)**	1,433
Increase in contract liabilities		**29**	1,016
(Decrease)/increase in other payables and accruals		**(1,165)**	296
Cash generated from operations		**43,489**	56,126
Bank interest received		**1,651**	1,211
Income tax paid		**(13,328)**	(10,777)
Net cash flows from operating activities		**31,812**	46,560

	Notes	2022 RMB'000	2021 RMB'000
Net cash flows from operating activities		**31,812**	46,560
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(7,645)**	(17,958)
Proceeds from disposal of items of property, plant and equipment		**20**	—
Purchases of intangible assets		**(95)**	(450)
Lease payments made before the commencement date of a lease	*26(c)*	**(892)**	—
Net cash flows used in investing activities		**(8,612)**	(18,408)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares for the initial public offering		**33,797**	—
Share issue expenses		**(426)**	—
Repayment of other borrowing	*26(b)*	**—**	(25,000)
Principal portion of lease payments	*26(b)*	**(7,111)**	(9,516)
Interest paid	*26(b)*	**(1,886)**	(3,327)
Net cash flows from/(used in) financing activities		**24,374**	(37,843)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**47,574**	(9,691)
Cash and cash equivalents at beginning of year		**41,283**	50,974
Effect of foreign exchange rate changes, net		**672**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		**89,529**	41,283
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**89,529**	41,283
Cash and cash equivalents as stated in the consolidated statement of cash flows and consolidated statement of financial position	*19*	**89,529**	41,283

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.

In the opinion of the directors, the controlling shareholders of the Company are Mr. Wang Xiaomin, Ms. Zheng Man, JTC (China) Co., LTD, Ricon (China) Co., LTD and Meihao (China) Co., LTD.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Yongkang (China) Co., LTD	The British Virgin Islands ("BVI") 20 November 2019	United States dollars ("US$") 1	100% (direct)	Investment holding
Health Dental Services Limited	Hong Kong 24 October 2019	Hong Kong dollars ("HK$") 10,000	100% (direct)	Investment holding
Dehong (China) Co., Limited ("Dehong HK")	Hong Kong 18 November 2019	HK$1	100% (indirect)	Investment holding
Wenzhou Meihao Business Management Co., Ltd.* *(Note (a))*	PRC/Mainland China 20 December 2019	US$1,560,000	100% (indirect)	Investment holding
Wenzhou Dehong Medical Management Co., Ltd. ("Dehong Medical")* *(Notes (b) and (d))*	PRC/Mainland China 2 August 2019	RMB10,000,000	100% (indirect)	Investment holding
Wenzhou Tianrui Medical Management Co., Ltd. ("Tianrui Medical")* *(Notes (c) and (d))*	PRC/Mainland China 2 August 2019	RMB10,000,000	100% (indirect)	Investment holding

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Wenzhou Dental Hospital Co., Ltd. ("Wenzhou Hospital")* *(Notes (c) and (d))*	PRC/Mainland China 8 March 2011	RMB20,000,000	100% (indirect)	Provision of dental services
Wenzhou Lucheng Stomatological Hospital Co., Ltd. ("Lucheng Hospital")* *(Notes (c) and (d))*	PRC/Mainland China 7 June 2016	RMB50,000,000	100% (indirect)	Provision of dental services
Longgang Stomatological Hospital Co., Ltd. ("Longgang Hospital")* *(Notes (c) and (d))*	PRC/Mainland China 24 August 2015	RMB5,000,000	95% (indirect)	Provision of dental services
Wenzhou Stomatological Hospital Co., Ltd. ("Wenzhou Oral Care")* *(Notes (c) and (d))*	PRC/Mainland China 21 December 2015	RMB23,000,000	100% (indirect)	Provision of dental services

Notes:

(a) *This entity is a wholly-foreign-owned company established under PRC law.*

(b) *This entity is a Sino-foreign joint venture company established under PRC law.*

(c) *These entities are limited liability enterprises established under PRC law.*

(d) *Dehong Medical, which has 70% equity interests in Wenzhou Hospital, Lucheng Hospital, Longgang Hospital, Wenzhou Lucheng Children Stomatological Hospital Co., Ltd. ("Lucheng Children Hospital") and Wenzhou Oral Care (the "Consolidated Affiliated Entities"), has entered into a series of contractual arrangements (the "Contractual Arrangements") with Tianrui Medical, which has 30% equity interests in Wenzhou Hospital, Lucheng Hospital, Lucheng Children Hospital and Wenzhou Oral Care and 25% equity interests in Longgang Hospital. The Contractual Arrangements enable Dehong Medical to obtain substantially all economic benefits of the Consolidated Affiliated Entities, except for the 5% equity interest in Longgang Hospital which is held by an independent third party. Consequently, the Company regards Wenzhou Hospital, Lucheng Hospital, Lucheng Children Hospital and Wenzhou Oral Care as wholly-owned subsidiaries and Longgang Hospital as a 95% owned subsidiary.*

* *The English names of these entities registered in the PRC represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) The Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 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	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018–2020	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.

2.2 Changes in Accounting Policies and Disclosures (Continued)

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

(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.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information*[6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[2, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 *Effective for annual periods beginning on or after 1 January 2023*

2 *Effective for annual periods beginning on or after 1 January 2024*

3 *No mandatory effective date yet determined but available for adoption*

4 *As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised to align the corresponding wording with no change in conclusion*

5 *As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023*

6 *An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17*

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will recognise deferred tax for all temporary differences related to leases at the beginning of the earliest comparative period presented. During the year, the Group has performed a detailed assessment on the impact of amendments to HKAS 12. The Group has estimated that it will recognise a deferred tax asset of RMB11,135,000 for deductible temporary differences associated with lease liabilities and a deferred tax liability of RMB10,895,000 for taxable temporary differences associated with right-of-use assets, and recognise the cumulative effect of initially applying the amendments as an adjustment to retained profits at 1 January 2022.

2.4 Summary of Significant Accounting Policies

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 Summary of Significant Accounting Policies (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Medical equipment	10 years
Office equipment and furniture	5 years
Motor vehicles	6 years
Leasehold improvements	Over the shorter of the useful lives and the lease terms

The rates of residual values of property, plant and equipment are as follows:

Medical equipment	5%
Office equipment and furniture	5%
Motor vehicles	5%
Leasehold improvements	0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold improvements under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost is the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or intangible assets when completed and ready for use.

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	2 to 10 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 Summary of Significant Accounting Policies (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. For the lease transaction with a director, the lease liability is measured based on the contractual amount.

The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate ("IBR") at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset. The Group remeasures the lease liability by discounting the revised lease payments only when there is a change in the cash flows (i.e., when the adjustment to the lease payments takes effect). The Group determines the revised lease payments for the remainder of the lease term based on the revised contractual payments. The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises and staff dormitories (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting period, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and accruals.

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (payables)

After initial recognition, payables are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group’s cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, and assets similar in nature to cash, which are not restricted as to use.

2.4 Summary of Significant Accounting Policies (Continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

Revenue from the rendering of dental services is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group.

(a) Revenue from the rendering of orthodontics and cosmetic dentistry services is recognised over time using an input method to measure progress towards complete satisfaction of the service. The input method recognises revenue on the basis of the staff costs and costs of inventories, consumables and customised products expended relative to the total expected costs to complete the service.

(b) Revenue from the rendering of other dental services is recognised when the services have been rendered given that such dental services are generally completed within a very short period of time.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related services to the customer).

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

These financial statements are presented in RMB as the major operations of the Group are within Mainland China. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss is translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and the overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. Significant Accounting Judgements and Estimates (Continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Contractual Arrangements

The Consolidated Affiliated Entities are engaged in the medical business. According to the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021), investments in medical institutions such as the Consolidated Affiliated Entities fall within the "restricted" investment category, and therefore these entities may not be held 100% by foreign investors, and foreign investments are restricted to the form of joint ventures.

As disclosed in note 1, the Group enjoys substantially all economic benefits of the Consolidated Affiliated Entities through the Contractual Arrangements, except for the 5% equity interest in Longgang Hospital which is held by an independent third party.

The Group does not hold the 30% equity interests in Wenzhou Hospital, Lucheng Hospital, Lucheng Children Hospital and Wenzhou Oral Care and the 25% equity interests in Longgang Hospital. However, as a result of the Contractual Arrangements, the Company enjoys substantially all economic benefits of the Consolidated Affiliated Entities through the Contractual Arrangements, except for the 5% equity interest in Longgang Hospital which is held by an independent third party. Consequently, the Company regards Wenzhou Hospital, Lucheng Hospital, Lucheng Children Hospital and Wenzhou Oral Care as wholly-owned subsidiaries and Longgang Hospital as a 95% owned subsidiary. The Group has consolidated the financial position and results of the Consolidated Affiliated Entities in the consolidated financial statements for the reporting period with the 5% equity interest in Longgang Hospital being recognised as a non-controlling interest.

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

The Group concluded that revenue from the rendering of orthodontics and cosmetic dentistry services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group.

The Group determined that the input method is the best method in measuring the progress of orthodontics and cosmetic dentistry services because there is a direct relationship between the Group's effort (i.e., staff costs and cost of inventories, consumables and customised products incurred) and the transfer of services to the customer. The Group recognises revenue on the basis of the staff costs and cost of inventories, consumables and customised products expended relative to the total expected costs to complete the service.

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue deferred tax liabilities in respect of withholding taxes arising from the distributions of dividends by certain PRC subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends. Such judgement is made with reference to the Group's business plan and future cash requirements outside Mainland China.

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing of receivables from the customers.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17 to the consolidated financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2022 was RMB2,514,000 (2021: RMB1,103,000). Further details are included in note 23 to the consolidated financial statements.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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, Other Income and Gains

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	**127,408**	105,315

Revenue from contracts with customers

(i) Disaggregated revenue information

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

5. Revenue, Other Income and Gains (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

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 RMB'000	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Rendering of dental services	**4,244**	3,423

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

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.

An analysis of other income and gains is as follows:

	2022 RMB'000	2021 RMB'000
Other income and gains		
Bank interest income	**1,651**	1,211
Government grants*	**8,210**	147
Gain on termination of leases	**—**	258
Others	**34**	46
	9,895	1,662

* *The government grants mainly represent incentives received or receivable from the local government in connection with certain financial support to local business enterprises for the purpose of encouraging business development. There are no unfulfilled conditions or contingencies relating to these grants.*

6. Profit Before Tax

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

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories, consumables and customised products		**15,204**	11,201
Depreciation of property, plant and equipment	*13*	**6,128**	4,491
Depreciation of right-of-use assets	*14(a)*	**6,972**	6,387
Amortisation of intangible assets*	*15*	**208**	98
Impairment of trade receivables, net**	*17*	**(27)**	(311)
Lease payments not included in the measurement of lease liabilities	*14(c)*	**178**	147
Government grants	*5*	**(8,210)**	(147)
Bank interest income	*5*	**(1,651)**	(1,211)
Auditor's remuneration		**1,686**	—
Listing expenses		**9,494**	2,217
Loss on disposal of items of property, plant and equipment, net		**58**	67
Covid-19-related rent concessions from lessors	*14(c)*	**564**	—
Gain on termination of leases	*14(c)*	**—**	(258)
Foreign exchange differences, net		**753**	—
Employee benefit expense (excluding directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**32,056**	25,917
Pension scheme contributions***		**4,917**	3,245
		36,973	29,162

* *The amortisation of intangible assets for the year is included in "Selling expenses" and "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.*

** *The reversal of impairment of trade receivables is included in "Impairment losses on financial assets, net" in the consolidated statement of profit or loss and other comprehensive income.*

*** *There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.*

7. Finance Costs

An analysis of finance costs is as follows:

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	**1,886**	1,735
Interest on interest-bearing other borrowing	**–**	736
	1,886	2,471

8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2022 RMB'000	2021 RMB'000
Fees	**32**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**745**	708
Pension scheme contributions	**74**	62
	819	770
	851	770

8. Directors' and Chief Executive's Remuneration (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2022 RMB'000	2021 RMB'000
Mr. Ng Ming Chee*	**13**	—
Ms. Tam Hon Shan Celia*	**13**	—
Dr. Zhou Jian*	**6**	—
	32	—

* *Mr. Ng Ming Chee, Ms. Tam Hon Shan Celia and Dr. Zhou Jian were appointed as independent non-executive directors of the Company on 8 November 2022.*

There were no other emoluments payable to the independent non-executive directors during the year (2021: Nil).

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022				
Mr. Wang Xiaomin*	**—**	**379**	**37**	**416**
Ms. Zheng Man	**—**	**366**	**37**	**403**
	—	**745**	**74**	**819**
2021				
Mr. Wang Xiaomin*	—	360	31	391
Ms. Zheng Man	—	348	31	379
	—	708	62	770

* *Mr. Wang Xiaomin is the chief executive of the Company.*

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees during the current year and prior year did not include any directors. Details of directors' remuneration are set out in note 8 above. Details of the remuneration for the five highest paid employees who are neither a director nor chief executive of the Company during the years ended 31 December 2022 and 2021 are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	**2,874**	3,030
Pension scheme contributions	**312**	264
	3,186	3,294

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2022	2021
Nil to HK$1,000,000	**5**	5

10. 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.

10. Income Tax (Continued)

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

	2022 RMB'000	2021 RMB'000
Current — Mainland China		
Charge for the year	**13,280**	12,354
Deferred *(note 23)*	**(1,648)**	(864)
Total tax charge for the year	**11,632**	11,490

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	2022 RMB'000	2021 RMB'000
Profit before tax	**40,202**	43,667
Tax at the statutory tax rate	**10,051**	10,917
Preferential tax rates enacted by local authority	**(468)**	—
Expenses not deductible for tax	**1,955**	457
Temporary differences and tax losses not recognised	**94**	116
Tax charge at the Group's effective rate	**11,632**	11,490

11. Dividends

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

12. 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 **RMB'000**	2021 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**28,456**	32,069

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year	**457,397,260**	450,000,000

13. Property, Plant and Equipment

	Medical equipment RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022						
At 1 January 2022:						
Cost	15,932	5,873	961	25,676	775	49,217
Accumulated depreciation	(6,627)	(2,870)	(855)	(11,186)	–	(21,538)
Net carrying amount	9,305	3,003	106	14,490	775	27,679
At 1 January 2022, net of accumulated depreciation	9,305	3,003	106	14,490	775	27,679
Additions	2,117	1,676	–	2,175	745	6,713
Depreciation provided during the year *(note 6)*	(1,786)	(663)	(23)	(3,656)	–	(6,128)
Disposals	(78)	–	–	–	–	(78)
Transfers	–	–	–	665	(775)	(110)
At 31 December 2022, net of accumulated depreciation	9,558	4,016	83	13,674	745	28,076
At 31 December 2022:						
Cost	17,774	7,538	961	28,516	745	55,534
Accumulated depreciation	(8,216)	(3,522)	(878)	(14,842)	–	(27,458)
Net carrying amount	9,558	4,016	83	13,674	745	28,076

13. Property, Plant and Equipment (Continued)

	Medical equipment RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021						
At 1 January 2021:						
Cost	13,680	3,565	961	13,857	—	32,063
Accumulated depreciation	(5,325)	(2,417)	(832)	(8,537)	—	(17,111)
Net carrying amount	8,355	1,148	129	5,320	—	14,952
At 1 January 2021, net of accumulated depreciation	8,355	1,148	129	5,320	—	14,952
Additions	2,286	2,320	—	11,904	775	17,285
Depreciation provided during the year *(note 6)*	(1,308)	(464)	(23)	(2,696)	—	(4,491)
Disposals	(28)	(1)	—	(38)	—	(67)
At 31 December 2021, net of accumulated depreciation	9,305	3,003	106	14,490	775	27,679
At 31 December 2021:						
Cost	15,932	5,873	961	25,676	775	49,217
Accumulated depreciation	(6,627)	(2,870)	(855)	(11,186)	—	(21,538)
Net carrying amount	9,305	3,003	106	14,490	775	27,679

14. Leases

The Group as a lessee

The Group has lease contracts for office premises used for its operations. Leases of office premises generally have lease terms between 2 and 10 years. There are no lease contracts that include extension and termination options and variable lease payments.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Office premises RMB'000
As at 1 January 2021	16,270
Additions	34,517
Depreciation charge *(note 6)*	(6,387)
Reassessment of lease liabilities *(note 14(d))*	368
Reductions as a result of termination of leases	(1,190)
As at 31 December 2021 and 1 January 2022	43,578
Depreciation charge *(note 6)*	(6,972)
Reassessment of lease liabilities *(note 14(d))*	(248)
As at 31 December 2022	36,358

As at 31 December 2022, the relevant land use right certificate and real property ownership certificate have not been obtained for certain right-of-use assets with an aggregate net book value of RMB28,125,000.

14. Leases (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	**44,539**	20,618
New leases	**—**	34,517
Accretion of interest recognised during the year	**1,886**	1,735
Covid-19-related rent concessions from lessors	**(564)**	—
Reassessment of lease liabilities *(note 14(d))*	**(248)**	368
Reductions as a result of termination of leases	**—**	(1,448)
Payments	**(8,997)**	(11,251)
Carrying amount at 31 December	**36,616**	44,539
Analysed into:		
Current portion	**6,898**	9,376
Non-current portion	**29,718**	35,163

The maturity analysis of lease liabilities is disclosed in note 31 to the consolidated financial statements.

The Group has applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain office premises during the year.

As at 31 December 2022, included in the Group's current lease liabilities was an amount of RMB53,000 (2021: RMB1,592,000) due to a director.

14. Leases (Continued)

The Group as a lessee (Continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	**1,886**	1,735
Depreciation charge of right-of-use assets	**6,972**	6,387
Expense relating to short-term leases (included in selling expenses, administrative expenses and cost of sales) *(note 6)*	**178**	147
Covid-19-related rent concessions from lessors *(note 6)*	**(564)**	—
Gain on termination of leases *(note 6)*	**—**	258
Total amount recognised in profit or loss	**8,472**	8,527

(d) Reassessment of lease liabilities

In March 2021, the lessor and the branch of one of the Group's subsidiaries, Wenzhou Dental Hospital Co., Ltd. Rui'an Branch Company, agreed to amend the original lease to (i) reduce the annual lease payment from RMB880,000 to RMB750,000 and (ii) extend the lease term from 8 years to 10 years. Therefore, the lease liabilities and the right-of-use assets were adjusted.

According to the lease contract, the lessor engaged a third-party evaluation agency to re-evaluate the seventh-year rent of Lucheng Hospital during the year ended 31 December 2022. The seventh-year rent was reduced from RMB1,787,000 to RMB1,701,000, after which it will increase by 1.5% every year and will be re-evaluated once every two years. Therefore, the lease liabilities and the right-of-use assets were adjusted.

(e) The total cash outflow for leases is disclosed in note 26(c) to the consolidated financial statements.

15. Intangible Assets

	Software RMB'000
31 December 2022	
Cost at 1 January 2022, net of accumulated amortisation	**531**
Additions	**95**
Amortisation provided during the period *(note 6)*	**(208)**
Transfers	**110**
At 31 December 2022	**528**
At 31 December 2022:	
Cost	**1,107**
Accumulated amortisation	**(579)**
Net carrying amount	**528**
31 December 2021	
Cost at 1 January 2021, net of accumulated amortisation	179
Additions	450
Amortisation provided during the year *(note 6)*	(98)
At 31 December 2021	531
At 31 December 2021:	
Cost	902
Accumulated amortisation	(371)
Net carrying amount	531

16. Inventories

	2022 RMB'000	2021 RMB'000
Pharmaceuticals	**68**	130
Medical consumables	**2,429**	2,233
	2,497	2,363

17. Trade Receivables

	2022 RMB'000	2021 RMB'000
Trade receivables	**526**	630
Impairment	**(3)**	(30)
	523	600

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 RMB'000	2021 RMB'000
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	**2**	11
	523	600

17. Trade Receivables (Continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2022 RMB'000	2021 RMB'000
At beginning of year	**30**	341
Impairment losses, net *(note 6)*	**(27)**	(311)
At end of year	**3**	30

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the ageing of receivables from the customer. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Less than 1 year RMB'000	**1 to 2 years** RMB'000	**Over 2 years** RMB'000	**Total** RMB'000
As at 31 December 2022				
Trade receivables (RMB'000)	**508**	**16**	**2**	**526**
Expected credit loss rate	**0.59%**	**0.82%**	**17.46%**	**0.57%**
Expected credit losses (RMB'000)	**3**	**—**	**—**	**3**
As at 31 December 2021				
Trade receivables (RMB'000)	569	28	33	630
Expected credit loss rate	1.05%	7.14%	66.67%	4.76%
Expected credit losses (RMB'000)	6	2	22	30

18. Prepayments, Other Receivables and Other Assets

	2022 RMB'000	2021 RMB'000
Non-current:		
Prepayments for long-term assets	**4,774**	1,957
Rental deposits	**1,270**	1,131
	6,044	3,088
Current:		
Other receivables	**81,967**	3,837
Prepayments	**1,991**	918
Deferred listing expenses	**–**	6,432
	83,958	11,187
	90,002	14,275

Included in the non-current portion of the prepayment, other receivables and other assets are lease prepayments of RMB892,000 (2021: Nil) made before the commencement date of a lease to the Group's related party.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

19. Cash and Cash Equivalents

	2022 RMB'000	2021 RMB'000
Cash and bank balances	**89,529**	41,283
Denominated in RMB	**55,920**	41,273
Denominated in HK$	**33,609**	10
Cash and cash equivalents	**89,529**	41,283

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

20. 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 **RMB'000**	2021 RMB'000
Within 3 months	**2,569**	3,666
3 to 6 months	**1,385**	663
6 to 12 months	**554**	300
Over 1 year	**967**	1,088
	5,475	5,717

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

21. Other Payables and Accruals

	2022 **RMB'000**	2021 RMB'000
Payroll payable	**6,335**	6,564
Other payables	**8,583**	8,444
Taxes payable other than corporate income tax	**869**	951
	15,787	15,959

Other payables are non-interest-bearing and repayable on demand.

22. Contract Liabilities

Details of contract liabilities are as follows:

	2022 **RMB'000**	2021 RMB'000
Advances received from customers		
Dental services		
Current	**4,203**	7,792
Non-current	**4,021**	403
	8,224	8,195

22. Contract Liabilities (Continued)

Contract liabilities include advances received to render dental services. The increase in contract liabilities in 2022 and 2021 was mainly due to the increase in advances received from customers in relation to the provision of dental services at the end of the year.

23. Deferred Tax

The movements in deferred tax assets during the year are as follows:

Deferred tax assets

	Accrued expenses RMB'000	**Impairment of financial assets** RMB'000	**Losses available for offsetting against future taxable profits** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2021	1,793	85	325	490	2,693
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	122	(78)	778	42	864
At 31 December 2021 and 1 January 2022	1,915	7	1,103	532	3,557
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	2	(6)	1,411	241	1,648
At 31 December 2022	1,917	1	2,514	773	5,205

Deferred tax assets have not been recognised in respect of the following items:

	2022 **RMB'000**	2021 RMB'000
Tax losses	**4,876**	4,024
Deductible temporary differences	**933**	1,411
	5,809	5,435

23. Deferred Tax (Continued)

Deferred tax assets (Continued)

The above tax losses will expire in one to five years for offsetting against taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2022, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB50,038,000 (2021: RMB22,483,000).

24. Share Capital

Shares

	2022 **RMB'000**	2021 RMB'000
Issued and fully paid:		
600,000,000 (2021: 10,000) ordinary shares of HK$0.01 each	**5,365**	—

A summary of movements in the Company's share capital is as follows:

	Notes	**Number of shares in issue**	**Share capital** RMB'000
At 1 January 2021, 31 December 2021 and 1 January 2022		10,000	—
Capitalisation issue	*(a)*	449,990,000	4,024
New issues on 14 December 2022	*(b)*	150,000,000	1,341
At 31 December 2022		600,000,000	5,365

24. Share Capital (Continued)

Shares (Continued)

Notes:

(a) *Pursuant to the board resolutions passed on 8 November 2022, 449,990,000 shares of HK$0.01 each were allotted and issued, credited as fully paid at par, by way of capitalisation from the share premium account to the holders of shares whose names appeared on the register of members of the Company at the close of business on 8 November 2022 in proportion to their respective shareholdings. The allotment and capitalisation issue were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in note (b) below.*

(b) *In connection with the Company's initial public offering, 150,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$0.84 per share for a total cash consideration, before expenses, of approximately HK$126,000,000 (equivalent to RMB112,655,000). Dealings in these shares on the Stock Exchange commenced on 14 December 2022.*

25. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity of the consolidated financial statements.

Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

Merger reserve

The merger reserve of the Group represents the paid-up capital of the companies comprising the Group prior to the incorporation of the Company. Additionally, it also represents the paid-up capital and capital reserve of the subsidiaries acquired by the Company pursuant to the reorganisation.

Capital reserve

The capital reserve of the Group represents a waived interest-free shareholder's loan from the controlling shareholder.

Statutory surplus reserve

In accordance with the Company Law of the PRC, a subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC accounting standards, to its statutory surplus reserve until the reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

26. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transactions

(i) The Group had non-cash additions to right-of-use assets and lease liabilities of RMB34,517,000 and RMB34,517,000 during the year ended 31 December 2021, respectively, in respect of lease arrangements for office premises. No such non-cash additions occurred during the year ended 31 December 2022.

(ii) The Group had non-cash reductions to right-of-use assets and lease liabilities of RMB248,000 and RMB248,000, respectively, during the year ended 31 December 2022 and non-cash additions to right-of-use assets and lease liabilities of RMB368,000 and RMB368,000, respectively, during the year ended 31 December 2021 in respect of reassessment of lease liabilities. Further details are included in note 14(d).

(iii) During the year ended 31 December 2021, the Group had non-cash reductions to right-of-use assets and lease liabilities of RMB1,190,000 and RMB1,448,000, respectively, in respect of termination of leases for certain office premises. No such non-cash reductions occurred during the year ended 31 December 2022.

(b) Changes in liabilities arising from financing activities

	Lease liabilities RMB'000
At 1 January 2022	44,539
Changes from financing cash flows	
— Principal portion of lease payments	(7,111)
— Interest paid	(1,886)
Interest expense	1,886
Covid-19-related rent concessions from lessors	(564)
Reassessment of lease liabilities	(248)
At 31 December 2022	36,616

26. Notes to the Consolidated Statement of Cash Flows (Continued)

(b) Changes in liabilities arising from financing activities (Continued)

	Lease liabilities RMB'000	**Interest-bearing other borrowing** RMB'000
At 1 January 2021	20,618	25,856
Changes from financing cash flows		
— Principal portion of lease payments	(9,516)	—
— Interest paid	(1,735)	(1,592)
— Repayment of other borrowing	—	(25,000)
Interest expense	1,735	736
New leases	34,517	—
Reassessment of lease liabilities	368	—
Termination of leases	(1,448)	—
At 31 December 2021	44,539	—

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2022 **RMB'000**	2021 RMB'000
Within operating activities	**178**	147
Within investing activities	**892**	—
Within financing activities	**8,997**	11,251
	10,067	11,398

27. Commitments

(a) The Group had the following capital commitments at the end of the reporting period:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
Leasehold improvements	**1,763**	495
Medical equipments	**301**	—
	2,064	495

(b) The Group has a lease contract entered as a lessee that has not yet commenced as at 31 December 2022. The future lease payments for this non-cancellable lease contract are RMB1,783,000 due in the second to third years, inclusive.

28. Related Party Transactions

Details of the Group's principal related party is as follows:

Name	Relationship with the Group
Ms. Zheng Man	Executive director

(a) In addition to the transactions detailed in note 8 to the consolidated financial statements, the Group had the following other transaction with a related party during the year:

During the year, a subsidiary of the Group entered into an agreement to rent office premises from a director, Ms. Zheng Man, for a period of three years commencing from 1 January 2023 with an annual rental fee of RMB892,000.

(b) Outstanding balance with a related party:

	2022 RMB'000	2021 RMB'000
Prepayments, other receivables and other assets		
Ms. Zheng Man	**892**	—

(i) Details of the Group's prepayments to a director are included in note 18 to the consolidated financial statements.

(ii) Details of the Group's lease liabilities to a director as at the end of the reporting period are included in note 14(b) to the consolidated financial statements.

(iii) The balance with a director was unsecured, interest-free and trade in nature.

28. Related Party Transactions (Continued)

(c) Compensation of key management personnel of the Group:

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	**1,901**	1,597
Pension scheme contributions	**247**	212
Total compensation paid to key management personnel	**2,148**	1,809

Further details of directors' and the chief executive's emoluments are included in note 8 to the consolidated financial statements.

29. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Financial assets at amortised cost	
	2022 RMB'000	2021 RMB'000
Trade receivables	**523**	600
Financial assets included in prepayments, other receivables and other assets	**83,237**	4,968
Cash and cash equivalents	**89,529**	41,283
	173,289	46,851

Financial liabilities

	Financial liabilities at amortised cost	
	2022 RMB'000	2021 RMB'000
Trade payables	**5,475**	5,717
Financial liabilities included in other payables and accruals	**8,583**	8,444
	14,058	14,161

30. Fair Value and Fair Value Hierarchy of Financial Instruments

All the carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, other receivables and other assets, trade receivables, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the financial controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the financial controller. At each reporting period, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the financial controller. The valuation process and results are discussed with the directors periodically for financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of financial assets included in prepayments, other receivables and other assets have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group did not have any financial assets and financial liabilities measured at fair value as at 31 December 2022 and 2021.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2021: Nil).

31. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

31. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (arising from foreign currency denominated financial instruments) and the Group's equity.

2022

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
If the RMB weakens against the HK$	5	4,931	4,935
If the RMB strengthens against the HK$	(5)	(4,931)	(4,935)

Credit risk

Receivable balances are monitored on an on-going basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	526	526
Financial assets included in prepayments, other receivables and other assets					
— Normal**	83,237	–	–	–	83,237
Cash and cash equivalents					
— Not yet past due	89,529	–	–	–	89,529
	172,766	–	–	526	173,292

31. Financial Risk Management Objectives and Policies (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	—	—	—	630	630
Financial assets included in prepayments, other receivables and other assets					
— Normal**	4,968	—	—	—	4,968
Cash and cash equivalents					
— Not yet past due	41,283	—	—	—	41,283
	46,251	—	—	630	46,881

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the consolidated financial statements.*

** *The credit quality of the financial assets included in prepayments, other receivables and other assets and amounts due from a director and a related party is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".*

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the consolidated financial statements.

31. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2022				
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**1 to 10 years RMB'000**	**Total RMB'000**
Lease liabilities	**469**	**600**	**6,834**	**34,981**	**42,884**
Trade payables	**5,475**	**—**	**—**	**—**	**5,475**
Financial liabilities included in other payables and accruals	**8,583**	**—**	**—**	**—**	**8,583**
	14,527	**600**	**6,834**	**34,981**	**56,942**

	2021				
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 10 years RMB'000	Total RMB'000
Lease liabilities	921	1,492	7,464	42,611	52,488
Trade payables	5,717	—	—	—	5,717
Financial liabilities included in other payables and accruals	8,444	—	—	—	8,444
	15,082	1,492	7,464	42,611	66,649

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 31 December 2021.

32. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**9**	8
Total non-current assets	**9**	8
CURRENT ASSETS		
Prepayments, other receivables and other assets	**67,225**	—*
Cash and cash equivalents	**33,601**	—
Total current assets	**100,826**	—*
CURRENT LIABILITIES		
Other payables and accruals	**2,078**	8
Due to a subsidiary	**1,101**	—
Total current liabilities	**3,179**	8
NET CURRENT ASSETS/(LIABILITIES)	**97,647**	(8)
TOTAL ASSETS LESS CURRENT LIABILITIES	**97,656**	—
Net assets	**97,656**	—
EQUITY		
Share capital	**5,365**	—*
Reserves *(note)*	**92,291**	—
Total equity	**97,656**	—*

* *Amounts less than RMB1,000*

32. Statement of Financial Position of the Company (Continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows: (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2021, 31 December 2021 and 1 January 2022	—	—	—	—
Total comprehensive loss for the year	—	(81)	(982)	(1,063)
Capitalisation issue	(4,024)	—	—	(4,024)
Issue of shares for the initial public offering	111,314	—	—	111,314
Share issue expenses	(13,936)	—	—	(13,936)
At 31 December 2022	93,354	(81)	(982)	92,291

33. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2023.

FINANCIAL SUMMARY

A summary of selected items of the results and of the assets, liabilities and equity of the Group for the last four financial years is set out below:

	Year ended 31 December			
	2022 **RMB'000**	2021 RMB'000	2020 RMB'000	2019 RMB'000
RESULT				
Revenue	**127,408**	105,315	84,556	83,159
Gross profit	**78,248**	66,930	50,617	45,271
Profit before tax	**40,202**	43,667	24,192	23,082
Profit for the year	**28,570**	32,177	14,980	15,463

	As at 31 December			
	2022 **RMB'000**	2021 RMB'000	2020 RMB'000	2019 RMB'000
FINANCIAL POSITION				
Total assets	**252,718**	133,866	98,365	99,111
Total liabilities	**74,967**	83,323	79,999	79,241
Total equity	**177,751**	50,543	18,366	19,870
Non-controlling interests	**379**	265	157	80
Equity attributable to owners of the Company	**177,372**	50,278	18,209	19,790

Note: Four year financial summary is presented as the Company was newly listed on 14 December 2022 and it is not practicable for the Company to present the financial summary of the Group prior to 2019.