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# **YONGHE**

## **雍禾医疗**

**Yonghe Medical Group Co., Ltd.**

**雍禾醫療集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2279)**

### **ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2023**

#### **FINANCIAL HIGHLIGHTS**

The Group's revenue increased by 10.7% from RMB748.1 million for the six months ended June 30, 2022 to RMB827.8 million for the six months ended June 30, 2023.

Compared with RMB480.5 million for the six months ended June 30, 2022, our gross profit amounted to RMB467.6 million for the six months ended June 30, 2023.

Compared with 64.2% for the six months ended June 30, 2022, our gross profit margin was 56.5% for the six months ended June 30, 2023.

The Group's net profit decreased from RMB17.6 million for the six months ended June 30, 2022 to net loss of RMB226.2 million for the six months ended June 30, 2023.

Basic earnings per Share was RMB0.03 for the six months ended June 30, 2022, as compared to basic loss per Share of RMB0.44 for the six months ended June 30, 2023.

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2023.

The Board is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended June 30, 2023, together with the comparative figures for the corresponding period in 2022 as follows:

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	<b>Six months ended June 30,</b> <b>2023</b> <b>RMB'000</b> <b>Unaudited</b>	<b>2022</b> <b>RMB'000</b> <b>Unaudited</b>
Revenue from contracts with customers	4	<b>827,807</b>	748,137
Cost of sales and services	6	<b>(360,209)</b>	(267,641)
<b>Gross profit</b>		<b>467,598</b>	480,496
Selling and marketing expenses	6	<b>(498,402)</b>	(388,246)
General and administrative expenses	6	<b>(174,861)</b>	(113,033)
Research and development expenses	6	<b>(13,025)</b>	(8,631)
(Impairment losses)/net reversal gains on financial assets		<b>(276)</b>	90
Other income	5	<b>1,222</b>	7,822
Other losses – net		<b>(7,388)</b>	(1,919)
<b>Operating loss</b>		<b>(225,132)</b>	(23,421)
Finance income	7	<b>7,587</b>	63,895
Finance costs	7	<b>(38,883)</b>	(27,200)
Finance (costs)/income – net	7	<b>(31,296)</b>	36,695
<b>(Loss)/profit before income tax</b>		<b>(256,428)</b>	13,274
Income tax expense	8	<b>30,237</b>	4,355
<b>(Loss)/profit for the period</b>		<b>(226,191)</b>	17,629
<b>Other comprehensive loss</b>			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Currency translation differences		<b>(15)</b>	(328)
<b>Total comprehensive (loss)/income for the period</b>		<b>(226,206)</b>	17,301
<b>(Loss)/profit and total comprehensive (loss)/income for the period attributable to equity holders of the Company</b>		<b>(226,206)</b>	17,301
<b>(Loss)/earnings per share attributable to equity holders of the Company</b>			
Basic (loss)/earnings per share (RMB)	9	<b>(0.44)</b>	0.03
Diluted (loss)/earnings per share (RMB)	9	<b>(0.44)</b>	0.03

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at <b>June 30, 2023</b> <i>RMB'000</i> Unaudited	As at December 31, 2022 <i>RMB'000</i> Audited
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		701,695	642,296
Right-of-use assets		1,016,537	989,235
Intangible assets		38,893	39,678
Deferred income tax assets	15	94,744	60,423
Prepayments, deposits and other receivables	12	5,157	9,258
<b>Total non-current assets</b>		<b>1,857,026</b>	1,740,890
<b>Current assets</b>			
Inventories	10	91,150	88,089
Trade receivables	11	5,274	7,055
Prepayments, deposits and other receivables	12	139,209	116,301
Term deposits		145,899	412,940
Cash and cash equivalents		486,842	565,093
<b>Total current assets</b>		<b>868,374</b>	1,189,478
<b>Total assets</b>		<b>2,725,400</b>	2,930,368
<b>Equity</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		8	8
Share premium		1,332,287	1,332,287
Shares held for employee share scheme		(169,686)	(79,038)
Other reserves		155,571	155,494
(Accumulated losses)/retained earnings		(49,632)	176,559
<b>Total equity</b>		<b>1,268,548</b>	1,585,310
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Lease liabilities		891,299	845,048
Deferred income tax liabilities	15	1,702	1,502
<b>Total non-current liabilities</b>		<b>893,001</b>	846,550
<b>Current liabilities</b>			
Trade and other payables	13	210,562	144,118
Contract liabilities	14	159,663	154,977
Current income tax liabilities		7,218	8,859
Lease liabilities		182,276	190,554
Financial liabilities at fair value through profit or loss		4,132	–
<b>Total current liabilities</b>		<b>563,851</b>	498,508
<b>Total liabilities</b>		<b>1,456,852</b>	1,345,058
<b>Total equity and liabilities</b>		<b>2,725,400</b>	2,930,368

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1. GENERAL INFORMATION

Yonghe Medical Group Co., Ltd. (the “Company”) was incorporated in the Cayman Islands on September 17, 2020 as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Floor 4, Willow House, Cricket Square, Grand Cayman, KY 1-9010, Cayman Islands.

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

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

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

These condensed consolidated financial statements have been approved for issue by the Board of Directors on August 25, 2023.

## 2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended June 30, 2023 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

## 3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended December 31, 2022, as described in the annual consolidated financial statements.

### 3.1 New and amended standards adopted by the Group

- A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies as a result of adopting the HKAS 12 Income Taxes, and the other standards did not have any impact on the Group’s accounting policies. The impact of the HKAS 12 is disclosed in note 15.

#### HKAS 12 ‘Income Taxes’

- The amendments to HKAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions of leases of lessees, and will require the recognition of additional deferred tax assets and liabilities.



	<b>Six months ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Revenue from customer by region		
Mainland China	825,034	743,183
Hong Kong	2,773	4,954
	<u>827,807</u>	<u>748,137</u>

## 5. OTHER INCOME

	<b>Six months ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Government grants	670	6,651
VAT additional deduction (a)	552	1,171
	<u>1,222</u>	<u>7,822</u>

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

## 6. EXPENSES BY NATURE

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

	<b>Six months ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Employee benefits expenses	399,747	299,619
Promotion and marketing related expenses	345,161	240,915
Depreciation of right-of-use assets	77,652	57,150
Depreciation of property, plant and equipment	73,143	49,642
Cost of inventories and consumables	58,081	44,440
Utilities, maintenance fee and office expenses	33,103	24,381
Taxes and surcharges	13,660	14,668
Travelling and entertainment expenses	15,321	13,755
Rental expenses for short-term leases	4,492	9,120
Technical fee	6,545	4,407
Consulting service fee	1,337	2,537
Amortisation of intangible assets	1,325	2,091
Auditors' remuneration	930	1,050
Other expenses	16,000	13,776
	<u>1,046,497</u>	<u>777,551</u>

7. FINANCE (COSTS)/INCOME – NET

	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
<b>Finance income</b>		
Interest income on bank deposit	7,587	4,054
Foreign exchange gains	–	59,841
	<u>7,587</u>	<u>63,895</u>
<b>Finance costs</b>		
Interest expenses for lease liabilities	(27,598)	(25,985)
Foreign exchange losses	(11,285)	–
Interest expenses on bank borrowings	–	(1,215)
	<u>(38,883)</u>	<u>(27,200)</u>
<b>Finance (costs)/income – net</b>	<u><b>(31,296)</b></u>	<u><b>36,695</b></u>

8. INCOME TAX EXPENSES

	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Current income tax	3,884	9,972
Deferred income tax	(34,121)	(14,327)
Income tax expense	<u>(30,237)</u>	<u>(4,355)</u>

(a) Cayman Islands

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax.

(b) British Virgin Islands

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

(c) Hong Kong Profits Tax

The subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at the rate of 16.5% on any estimated assessable profits arising in Hong Kong.

**(d) PRC Enterprise Income Tax**

The income tax expenses consist of current and deferred income taxes payable in the PRC by the subsidiaries. Income tax provision in respect of the operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year or period, based on existing legislations and interpretations and practices in respect thereof.

On December 17, 2021, Beijing Yonghe Medical Investment Management Company Limited (“Yonghe Investment”) was qualified as “High and New Technology Enterprises” (“HNTes”) and is entitled to the preferential income tax rate of 15%. This status is subject to a requirement that Yonghe Investment reapplies for HNTes status every three years. In addition, certain of the subsidiaries in the PRC are qualified as small and micro enterprises under the relevant tax rules and regulations of the PRC.

Other than the above-mentioned subsidiaries, the other operating entities in the PRC are subject to standard income tax rate of 25% pursuant to the enterprise income tax law and related regulations.

**9. (LOSS)/EARNINGS PER SHARE**

**(a) Basic (loss)/earnings per share**

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

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

	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
(Loss)/profit for the period attributable to equity holders of the Company	(226,191)	17,629
Less: undistributed earnings attributable to unvested restricted shares during vesting period	<u>5,088</u>	<u>(379)</u>
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic (loss)/earnings per share	(221,103)	17,250
Weighted average number of ordinary equity shares in issue ('000)	501,887	514,922
Basic (loss)/earnings per share for profit attributable to ordinary equity holders of the Company during the period (expressed in RMB per share)	<u>(0.44)</u>	<u>0.03</u>



**(b) Diluted (loss)/earnings per share**

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

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

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

As the Group incurred losses for the six months ended June 30, 2023, the potential ordinary shares were not included in the calculation of dilutive losses per share, which would be anti-dilutive. Accordingly, dilutive losses per share was the same as the basic losses per share.

For the six months ended June 30, 2022, the diluted earnings per share was as follows:

	Six months ended June 30, 2022 <i>RMB'000</i> Unaudited
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	17,250
Add: undistributed earnings attributable to unvested restricted shares during vesting period	379
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	17,629
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share ('000)	514,922
Adjustments for calculation of diluted earnings per share:	
<b>Restricted shares</b>	11,958
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share ('000)	526,880
Diluted earnings per share for profit attributable to equity holders of the Company during the period (expressed in RMB per share)	0.03

## 10. INVENTORIES

	As at June 30, 2023 RMB'000 Unaudited	As at December 31, 2022 RMB'000 Audited
Pharmaceuticals and medical consumables	22,545	21,485
Medical hair care consumables	44,270	39,811
Wash and hair care products	19,470	20,596
Others	4,865	6,197
	<u>91,150</u>	<u>88,089</u>
Less: allowance for impairment of inventories	<u>–</u>	<u>–</u>
	<u><u>91,150</u></u>	<u><u>88,089</u></u>

## 11. TRADE RECEIVABLES

	As at June 30, 2023 RMB'000 Unaudited	As at December 31, 2022 RMB'000 Audited
Trade receivables from contracts with customers – Third parties	5,328	7,086
Less: allowance for impairment	<u>(54)</u>	<u>(31)</u>
	<u><u>5,274</u></u>	<u><u>7,055</u></u>

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

	As at June 30, 2023 RMB'000 Unaudited	As at December 31, 2022 RMB'000 Audited
Up to 3 months	4,721	6,805
3 to 6 months	556	249
6 months to 1 year	51	22
1-2 years	<u>–</u>	<u>10</u>
	<u>5,328</u>	<u>7,086</u>
Less: allowance for impairment	<u>(54)</u>	<u>(31)</u>
Total	<u><u>5,274</u></u>	<u><u>7,055</u></u>

### (b) Fair values of trade receivables

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

## 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at <b>June 30,</b> <b>2023</b> <i>RMB'000</i> <b>Unaudited</b>	As at December 31, 2022 <i>RMB'000</i> Audited
<b>Included in current assets</b>		
<b>Prepayments</b>		
Advertising and information technology services fee	26,274	22,823
Purchase of inventory	4,676	6,880
Rental and property management fees	2,736	2,531
Professional and agency service fees	9,554	5,845
Others	3,908	2,557
	<u>47,148</u>	<u>40,636</u>
<b>Deductible input VAT</b>	<b>6,350</b>	6,075
<b>Other receivables</b>		
Deposits (a)	76,815	64,363
Cash advance to employees (b)	5,625	3,293
Others	6,035	4,445
	<u>88,475</u>	<u>72,101</u>
Less: provision for impairment of other receivables	<u>(2,764)</u>	<u>(2,511)</u>
	<u>85,711</u>	<u>69,590</u>
Subtotal	<b>139,209</b>	116,301
<b>Included in non-current assets</b>		
Prepayments for property, plant and equipment	<u>5,157</u>	<u>9,258</u>
<b>Total</b>	<b><u>144,366</u></b>	<b><u>125,559</u></b>

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

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

### 13. TRADE AND OTHER PAYABLES

	As at <b>June 30,</b> <b>2023</b> <i>RMB'000</i> <b>Unaudited</b>	As at December 31, 2022 <i>RMB'000</i> Audited
Accrued employee benefits	61,051	61,136
Trade payables	103,790	43,968
Tax payables	13,136	13,100
Refund liabilities (i)	8,122	8,188
Accrued expenses	3,814	8,197
Security deposit	10,890	5,691
Advance for disposal of a subsidiary	5,500	–
Others	4,259	3,838
	<u>210,562</u>	<u>144,118</u>

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

	As at <b>June 30,</b> <b>2023</b> <i>RMB'000</i> <b>Unaudited</b>	As at December 31, 2022 <i>RMB'000</i> Audited
Up to 3 months	89,557	36,190
3 to 6 months	5,827	3,182
6 months to 1 year	4,938	1,669
1 to 2 years	1,436	1,747
Over 2 years	2,032	1,180
	<u>103,790</u>	<u>43,968</u>

## 14. CONTRACT LIABILITIES

	As at <b>June 30,</b> <b>2023</b> <i>RMB'000</i> <b>Unaudited</b>	As at December 31, 2022 <i>RMB'000</i> Audited
<b>Contract liabilities</b>		
Medical hair care	131,531	129,959
Hair transplant	16,939	14,423
Others	11,193	10,595
	<u>159,663</u>	<u>154,977</u>

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

### (i) Revenue recognised in relation to contract liabilities

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

	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Hair transplant	2,958	4,587
Medical hair care	59,542	86,979
Others	5,252	2,429
	<u>67,752</u>	<u>93,995</u>

### (ii) Unsatisfied contracts

Management expects that the amount of approximately RMB82 million of the transaction to unsatisfied obligations as at June 30, 2023 (December 31, 2022: approximately RMB79 million) will be recognised as revenue within next one year. The remaining will be recognised in more than one year.

## 15. DEFERRED INCOME TAX

### (a) The analysis of deferred income tax assets is as follows:

	As at <b>June 30,</b> <b>2023</b> <i>RMB'000</i> <b>Unaudited</b>	As at December 31, 2022 <i>RMB'000</i> Audited
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	282,704	47,680
– Deferred income tax assets to be recovered within 12 months	58,235	13,258
	<u>340,939</u>	<u>60,938</u>
Set-off of deferred income tax liabilities pursuant to set-off provisions	(246,195)	(515)
Net deferred income tax assets	<u><u>94,744</u></u>	<u><u>60,423</u></u>
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	198,268	1,609
– Deferred income tax liabilities to be settled within 12 months	49,629	408
	<u>247,897</u>	<u>2,017</u>
Set-off of deferred income tax assets pursuant to set-off provisions	(246,195)	(515)
Net deferred income tax liabilities	<u><u>1,702</u></u>	<u><u>1,502</u></u>

### (b) The net movement on the deferred income tax account is as follows:

	As at <b>June 30,</b> <b>2023</b> <i>RMB'000</i> <b>Unaudited</b>	As at December 31, 2022 <i>RMB'000</i> Audited
At beginning of the year	58,921	31,569
Credited to income tax expense (Note 8)	34,121	27,352
At end of the period	<u><u>93,042</u></u>	<u><u>58,921</u></u>

(c) **The gross movements in deferred income tax assets and deferred income tax liabilities during 2023 are as follows:**

(i) **Deferred income tax assets:**

	Tax losses <i>RMB'000</i>	Leases <i>RMB'000</i>	Refund liabilities <i>RMB'000</i>	Provision for impairment of assets <i>RMB'000</i>	Intra-group unrealised profit or loss <i>RMB'000</i>	Share-based compensation <i>RMB'000</i>	Total <i>RMB'000</i>
As at December 31, 2022	29,356	28,022	2,047	468	449	596	60,938
Effects of the adoption of HKAS 12 (Note 3.1)	-	230,048	-	-	-	-	230,048
As at January 1, 2023	29,356	258,070	2,047	468	449	596	290,986
Credited/(charged) to profit or loss	36,183	13,827	(16)	37	(92)	14	49,953
As at June 30, 2023	<u>65,539</u>	<u>271,897</u>	<u>2,031</u>	<u>505</u>	<u>357</u>	<u>610</u>	<u>340,939</u>

(ii) **Deferred income tax liabilities:**

	Leases <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Total <i>RMB'000</i>
As at December 31, 2022	1,355	662	2,017
Effects of the adoption of HKAS 12 (Note 3.1)	230,048	-	230,048
As at January 1, 2023	231,403	662	232,065
Credited/(charged) to profit or loss	15,869	(37)	15,832
As at June 30, 2023	<u>247,272</u>	<u>625</u>	<u>247,897</u>

16. No dividend has been paid or declared by the Company during the six months ended June 30, 2023 (six months ended June 30, 2022: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

As the leading medical group in China specializing in hair-related healthcare, we offer one-stop hair-related healthcare services covering hair transplant, medical hair care, routine hair restoration and other ancillary services. Having been focused on the hair-related healthcare service market, we have built a brand matrix for the full industry chain which is centered on our “Yonghe Medical” (雍禾醫療) and comprised of “Yonghe Hair Transplant” (雍禾植髮) for our professional hair transplant service, “Svenson” (史雲遜) for our medical hair care service, “Yonghe Fa Zhi Chu” (雍禾髮之初) for our female aesthetic hair transplant service, and “Harvard” (哈髮達) for our medical wig products. Simultaneously with the provision of hair transplant service, we have provided our medical-grade hair health management service for patients facing hair diseases in a more professional way using medical testing, diagnosis and personalized nursing treatment through Svenson Medical Hair Care Centers (史雲遜醫學健髮中心) in our hair transplant clinics under the “shop-in-shop” model since 2019, and through Svenson Medical Hair Care Centers that have been opened as stand-alone stores since 2022.

As at June 30, 2023, we operated 72 clinics under the brands of Yonghe Hair Transplant/Fa Zhi Chu Female Hair Transplant in 68 cities nationwide, and 14 hair care centers under the brand of Svenson in Beijing, Shanghai, Guangzhou and Shenzhen, making us the largest hair-related healthcare clinic chain in China in terms of scale and geographical coverage. During the Reporting Period, the total number of patients we served reached 72,591, representing an increase of 23.1% over the same period in 2022.





The following table sets forth the distribution of our clinics/stores by city tier\*:

	As at June 30, 2023	As at December 31, 2022
Tier-one cities	5	5
New tier-one cities	18	19
Tier-two cities	29	27
Tier-three cities	19	11
Hong Kong	1	1
	<hr/>	<hr/>
Subtotal	72	63
	<hr/>	<hr/>
	As at June 30, 2023	As at December 31, 2022
Stand-alone Svenson stores		
Shenzhen	6	2
Guangzhou	5	4
Shanghai	2	2
Beijing	1	1
	<hr/>	<hr/>
Subtotal	14	9
	<hr/>	<hr/>
<b>Total</b>	<b>86</b>	<b>72</b>
	<hr/> <hr/>	<hr/> <hr/>

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

For the six months ended June 30, 2023, the Group had a revenue of RMB827.8 million, representing an increase of 10.7% as compared with that of RMB748.1 million over the same period in 2022. Gross profit was RMB467.6 million, gross profit margin was therefore 56.5%.

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

	Six months ended June 30,							
	2023				2022			
	Revenue RMB'000	%	Gross profit RMB'000	Gross profit margin %	Revenue RMB'000	%	Gross profit RMB'000	Gross profit margin %
Hair transplant service	640,798	77.4	385,341	60.1	553,144	73.9	356,473	64.4
Medical hair care service	171,684	20.7	77,351	45.1	187,628	25.1	122,023	65.0
Others	15,325	1.9	4,906	32.0	7,365	1.0	2,000	27.2
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>827,807</b>	<b>100</b>	<b>467,598</b>	<b>56.5</b>	<b>748,137</b>	<b>100</b>	<b>480,496</b>	<b>64.2</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## ***Hair Transplant Service***

For the six months ended June 30, 2023, our revenue from hair transplant service increased by 15.9% over the same period of last year to RMB640.8 million, accounting for 77.4% of our total revenue. We have always been committed to providing professional and high-quality hair transplant service to patients, with a goal to build brand influence among them for our “Yonghe Hair Transplant” (雍禾植髮) under our strategic hierarchical service system.

In February 2023, with a view to further increasing the price transparency of hair transplant service, instead of the industry’s traditional follicle unit-based pricing model, we created a “fixed-price” pricing system in which we charge mainly based on our physician rankings and hair transplant techniques. Meanwhile, to accommodate those patients whose demand for female aesthetic hair transplant service becomes increasingly stronger, our new pricing system offers more affordable prices for improved aesthetic hair transplant service that is better suited to the needs of female patients. The implementation of our new pricing system has greatly reduced the cost of patients’ decision-making against the price for our hair transplant service, enhanced patients’ confidence in our medical care and their dependence on our brand, and further promoted the transparency in the industry. For the six months ended June 30, 2023, we achieved a significant growth in the number of patients of our hair transplant surgery as compared with the same period of last year. The number of patients who received our hair transplant surgery was 28,304, representing an increase of 34.6% over the same period of last year.

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

	<b>Unaudited</b>			
	<b>Six months ended June 30,</b>			
	<b>2023</b>		<b>2022</b>	
Number of patients who received our hair transplant service	<b>28,304</b>			21,021
Average spending per hair transplant patient (RMB)	<b>22,640</b>			26,314
<b>Three levels of services</b>	<b>Number of patients</b>	<b>Percentage</b>	Number of patients	Percentage
Number of patients who received services from our business chiefs	<b>19,564</b>	<b>69.1%</b>	16,681	79.3%
Number of patients who received services from our business deans	<b>7,443</b>	<b>26.3%</b>	3,904	18.6%
Number of patients who received our “Yongxiang” service*	<b>1,297</b>	<b>4.6%</b>	436	2.1%

\* Note: “Yongxiang” service includes the services from our Yongxiang chiefs and the services from our Yongxiang deans.

## ***Medical Hair Care Service***

For the six months ended June 30, 2023, our revenue from medical hair care service amounted to RMB171.7 million, accounting for 20.7% of our total revenue. As a pioneer in China’s medical hair care industry, we have provided professional and customized diagnosis and treatment services to our patients through Svenson Medical Hair Care Centers in our hair transplant clinics under the “shop-in-shop” model. To further boost a broader development of our medical hair care service, we have provided our medical-grade hair health management service to our patients in a more convenient and professional way through our “Svenson Medical Hair Care Centers” that have been opened as stand-alone stores since 2022. For the six months ended June 30, 2023, the number of patients who received our medical hair care service was 40,758, and the repurchase rate of our medical hair care service packages was 26.4%.

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

	<b>Unaudited</b>	
	<b>Six months ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
Number of patients who received our medical hair care service	<b>40,758</b>	38,440
Average spending per medical hair care patient (RMB)	<b>4,212</b>	4,886
Repurchase rate*	<b>26.4%</b>	25.5%

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

## **BUSINESS UPDATES**

### ***Continuously strengthening operational capabilities***

Our leading operational capability enables us to effectively control our costs and enhance our operational efficiency and profitability. Our business model is highly scalable, which not only benefits us to achieve rapid geographical expansion but also promotes efficient enrichment of our service offerings and service modes. During the Reporting Period, we focused our efforts on expanding the presence of Yonghe Hair Transplant clinics into tier-two and tier-three cities, and continued to extend the store network for stand-alone Svenson Medical Hair Care Centers in the Guangzhou-Shenzhen region. We opened i) 9 Yonghe Hair Transplant clinics mainly in tier-two and tier-three cities in Guangdong, Henan, Hubei and Shandong provinces, with an extended reach to Northwestern China in untapped cities such as Ningxia and Qinghai; and ii) 5 Svenson centers in Shenzhen and Guangzhou.

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

	As at June 30, 2023	As at December 31, 2022
Mature clinics	41	37
Growth-stage clinics	16	17
Start-up clinics	15	9
<b>Total</b>	<b>72</b>	<b>63</b>

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

a. *Upgraded pricing strategy for hair transplant service*

In February 2023, we upgraded the entire pricing system for our hair transplant service. Instead of the traditional follicle unit-based pricing approach, we adopted a “fixed-price” model under which prices are determined based on follicular plantation intervals and the rank of physician, and integrity, transparency, normalization and standardization are used as pricing criteria to avoid any bad industry phenomenon from happening such as raising the price after payment or in the course of surgery, to lead the hair transplant industry to be more price-transparent. Also, we expanded the price range of our hair transplant service to accommodate different patients’ needs for hair transplant service, effectively reduce the cost of patients’ pre-operative decision-making and improve the in-clinic conversion efficiency.

b. *Upgraded physician reception model*

The Group has fully implemented the physician reception system in all of its hair transplant clinics in China since June 2022. During the Reporting Period, we further upgraded the physician reception model through the following ways: i) we sorted out in detail 23 aspects in the reception process, clearly defined the job nature and standard operation of each role in clinics, and improved the standardized physician reception process; ii) we created an integrated system for multimodal diagnosis and treatment solutions for hair transplant and medical hair care by enhancing the prominent role of physicians in diagnosis and treatment to further strengthen the professional capacity of our diagnosis and treatment service; iii) we capitalized on our upgraded application of information technology in reception process to optimize our “booking” feature, achieve rational and effective resource allocation, regulate our green booking for night service and enhance the service capacity of clinics; iv) we developed physician electronic information archives to make available the physician diagnosis and treatment data to the public, which visualize the value and advantages of our services and enable more transparent and compliant services, thereby earn us a reputation for high quality; and v) we applied IT-based tools such as the “physician reception assistance system”, “automated hair checking system” and “smart line-drawing measuring” to increase our reception capacity and efficiency.

c. *Upgraded customers' experience*

Upholding the Group's "customer-oriented" philosophy, during the Reporting Period, we introduced the 6S service concept\* to improve the standard of our whole process of services in 6 areas. On this basis, we strictly controlled the service quality at all hierarchical levels and honed the skills of our physicians, nurses, paramedics and other frontline staff at clinics, in order to enhance customers' experience in the whole process of our services. Furthermore, to give customers an even better experience, we rolled out special services at some of our clinics such as round-the-clock exclusive one-on-one butler service, dynamic service process chart for visiting patients, dynamic alerts for service information and multi-contextual clinic navigation guidance service.

\* Note: The 6S service concept is as follows:



Fully building reputation for good service by returning to the essence of users' experience. In April 2023, the Group officially launched the “Yonghe Quality Appraisers” program, under which we engage our patients who have visited our clinics for consultation and who have received our surgical service or medical hair care service as our quality appraiser base to actively give us feedbacks on 7 aspects of our services including but not limited to online consultation, clinic reception, clinic consultation and clinic physical diagnosis, from the customers' perspective. The purpose is to enhance our service delivery capacity, and address the issues with respect to product efficacy, medical quality and operational management under a customer-company service development model.

### ***Improving medical service capabilities***

We strive to promote high-quality development of our hair-related healthcare services. In April 2023, the Group ran a full upgrade on its development strategy by introducing the concept of “one-on-one with good doctor”, which aims to make our medical services personalized and specialized that tailored medical programs and care are provided to patients according to their particular needs and conditions. With the focus on providing medical services, we adhere to the principle of “treat with medical care and deliver with beauty”, emphasizing that professional physicians play an important role in the provision of hair-related healthcare services, and that they lead the hair-related healthcare industry toward high-quality development.

As at June 30, 2023, the Group has built a professional medical team consisting of 1,657 members:

	<b>As at June 30, 2023</b>	2022
Our professional team	<b>1,657</b>	1,198
– Physicians	<b>372</b>	291
– Nurses	<b>1,167</b>	844
– Other medical professionals (including pharmacists and clinical scientists)	<b>118</b>	63

In June 2023, we established the “Peking University People’s Hospital & Yonghe Medical Joint Laboratory for Hair Health” and set up a joint laboratory expert committee with Peking University People’s Hospital, to cooperate on product research and development, diagnosis and treatment solutions design and technological innovation in diagnosis and treatment for hair loss diseases. Under the strategic cooperation on a complementary basis, both sides helped promote favorable and upward development of the hair-related healthcare industry. In the meantime, we also stepped up our efforts in proactively promoting cooperation among the industry, universities and research institutes by taking the lead in introducing advanced technologies and facilities to raise the hospital’s standard of diagnosis and treatment and provide medical services in a more regulated, standardized and segmented manner, so as to reward our patients with practical actions for their trust and support.

## **Pursuing refined marketing strategy for brand value enhancement**

During the Reporting Period, the Group continued to pursue refined marketing strategy with focus on brand value enhancement. To reinforce market competitiveness, we concentrated on brand building and customer relationship management, leveling up fully Yonghe's brand vision system and core strategy. We built a composite channel matrix of our brand, traffic and content to strengthen customers' awareness and stickiness to our brand, which in turn further enhanced our brand reputation.

Capturing tightly the development trend of the industry and given the facts about growing female customer base, customers suffering from alopecia at a younger age and rising concerns over hair health among the public, we formulated our brand connotation marketing strategy specific to our personalized services and medical hair care service. During the Reporting Period, we partnered with famous variety shows, set up extensive outdoor advertisements and launched the "Hair Forest Community Program" with Xinhuanet to achieve effective brand communication, targeted coverage in core cities, deepened user awareness and enhanced user experience, which resulted in improvement in both our brand influence and business performance.

## **Promoting the development of information and digital technology**

Innovation and application of digital technology are important means to increase operating efficiency and enhance patients' experience. The Group adopts industry-leading technology to enlarge customer base, enhance patients' experience, increase operating efficiency and reduce costs. During the Reporting Period, our focus lied on the integration and innovation of information technology for higher efficiency of our core services:

- (i) We successfully upgraded the "integrated reception process" at the benchmarked clinics in Beijing and Shanghai by centering around the triage, reception, follow-up and other key procedures that promotes differentiated operational management;
- (ii) We spearheaded digital transformation by carrying out in-house development of the "Hefan" core business system to create an online-merge-offline (OMO) digital business platform with seamless process connectivity;
- (iii) Our mini program, Yonghe Hair Health Internet Hospital, was successfully launched online which further enhanced patients' experience as it enabled us to develop new business operations such as distance consultation and pharmaceutical e-commerce;
- (iv) As for smart technology, we pressed ahead with the development of our "Yonghe Smart Clinic" project, under which we developed a 3D model-aided system for the design of hair transplant solutions and promoted the development of crucial techniques based on latest AI technologies such as smart aesthetic assessment and intelligent surgical solutions generation, for the purpose of bringing better experience to patients with respect to the design of surgical solutions.

## PROSPECTS

The hair-related healthcare market is in a stage of rapid development with huge unmet market demand and enormous growth potential. According to Frost & Sullivan, the size of the hair-related healthcare service market in China reached RMB18.4 billion in 2020, and is projected at RMB138.1 billion in 2030 with a CAGR of 22.3%. In the first half of 2023, the number of patients who received our hair transplant surgery was 28,304, representing an increase of 34.6% over the same period of last year. We expect that there will be an increasing number of patients in demand of alopecia treatment and medical hair care service. Leveraging our efforts in building a one-stop platform for hair-related healthcare services and taking advantage of the favorable industry prospect, the Group's market-leading position and its established brand recognition, we believe that we are well-positioned to capture great opportunities in this fast-growing market.

### **Continue the expansion and upgrade of our clinic network**

- ***Hair transplant clinics***

We will continue to open new clinics as planned. To this end, we will pursue our strategy of penetrating into lower-tier cities for broader geographical coverage of our clinic network to further increase our coverage in cities of all tiers, and densifying our presence in tier-one and new tier-one cities for a deeper layout by adopting a business model of “multiple clinics in one city” to further increase our density of coverage in all cities. We will also improve our presence by opening Fa Zhi Chu female hair transplant clinics in selected regions to provide customized aesthetic hair transplant service to our female aesthetic hair transplant consumers. We expect to have nearly 85 hair transplant clinics in China by the end of 2023.

- ***Svenson medical hair care centers***

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



- ***Comprehensive hair hospitals***

As the time goes on, consumers incline to look for diversified solutions for hair problems. The hair industry has been evolving overwhelmingly which drives traditional hair transplant businesses to gradually transform into comprehensive hair-related healthcare service providers. The establishment of our flagship comprehensive hair hospitals signifies our crucial step from the hair transplant market towards tapping in the boundless hair-related healthcare service market. Our comprehensive hair hospital in Shanghai has commenced official operation early this year, and our comprehensive hair hospital in Beijing opened officially in August this year as well. Qualified as a class I general hospital, our Beijing Yonghe Hair Hospital by far is the best comprehensive hair hospital nationwide in terms of scale, digitalization and standard of intelligent operation. Occupying a total area of over 12,000 square meters, the hospital provides not only hair transplant service but also integrated hair diagnosis and treatment services including but not limited to alopecia outpatient, medical hair care and preventive healthcare.

### **Reinforce operational capability and medical service capability**

Amidst industry advancement and escalating expectations from patients, we will continue to enhance our service standard to meet the market demand for diversification. We will strive to increase patients' sense of trust, satisfaction and loyalty with our healthcare services of higher quality, so as to boost good word-of-mouth reputation and continuous business growth. We will implement the following strategies to further reinforce the Group's operational and medical service capabilities:

- Strengthening the hierarchical structure, quantitative management and refined operation in clinics. Moving forward, we will reposition our existing clinics and manage them in a layered and hierarchical fashion based on multiple factors such as the strategic ranking of the cities where the clinics are located, the size of the clinics, the competitive landscape of the market, clinic business performance and geographical location. Meanwhile, we will formulate differentiated marketing input strategies and pay hierarchies with reference to prevailing competitive landscape of the market and consumers' spending power, and conduct targeted performance assessments on different resource allocation plans to promote the implementation of an internal horse-racing mechanism.
- Stepping up our "good doctor" strategy by upgrading our physician reception model. We seek to achieve innovation and breakthroughs for our no-shave hair transplant surgery, eyebrow hair transplant technology and other aesthetic services in attempt to enhance physicians' professionalism and adopt quantitative management on physicians' quality and rank promotion. Moreover, the Group will perform an upgrade to reshape the whole reception process, in order to further enhance physicians' reception capacity during clinic peak hours while ensuring the continued stable customers' experience. We expect our reception efficiency during peak hours to increase by 20%.
- Diversifying business strategy, reshaping membership value, and creating a contextual benefits platform. We will level up the membership status and benefits of our customers in the future and develop a comprehensive membership management system for promotion of constant interaction between customers and our platform, enhancement of customers' loyalty and prolongation of customers' life cycle. In addition, we will launch special referral benefits activities, with objectives of forming a robust business model allowing our "good service" to earn "good reputation" that in turn delivers "good growth", enhancing our capability in tackling market competition and carrying out coordination with diverse business formats for expansion of customer acquisition channels.

- Strengthening the management of medical compliance as the adherence to which is a cornerstone of our sustainable development. We will develop a comprehensive set of work standards and requirements for employees by ways of improving training programs, strengthening assessments and refining precise management, to achieve the best practices of the industry. We believe that with persistent training, technological renewal and operational management refinement, we are able to help our physician team to become more professional, conduct diagnosis and treatment highly efficiently and provide patients with more personalized and precise medical-grade healthcare, thereby to build good reputation for the Group.

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

Technology-oriented operation represents a unique advantage that differentiates us from other hair-related healthcare service providers, enables us to further improve patients' experience, attract more patients and reinforce patients' loyalty, which will, in turn, promote our brand development, solidify our market dominance, and boost our sustainable future growth. We will continue to upgrade our digital and smart business operation and marketing ecosystems by taking the following measures:

- We will endeavor to promote the launch of phase 1 of our new homegrown "Hefan" business system to upgrade the experience in the reception service process at clinics. Meanwhile, we will further improve the efficiency of all business functions in order to provide customers with healthcare services of higher quality.
- We will standardize the multi-contextual customer labeling and create an integrated electronic filing system along customers' life-cycle service journey in order to operate efficiently and hierarchically within private domain and satisfy customers' needs more precisely.
- We will upgrade our mini program of hair health internet hospital operation by updating the contents, membership and products under our point redemption scheme so as to support referrals and repurchases by members and continuously increase customers' satisfaction and loyalty.
- We will continue to develop our project of Yonghe Smart Clinic, which is planned to serve as our pilot clinic for the validation of 3D model-aided hair transplant solution designs. We will also complete our development of AI-aided detection core algorithm for hair checking to enable AI-aided classification and identification of alopecia grades follicle testing and thereby provide patients with medical solutions more precisely.
- We will develop a smart system for customer service and quality inspection which will allow us to provide interactive online auxiliary Q&A and speech quality inspection services. This initiative is expected to significantly improve the efficiency of our outbound calling and customer service teams. We believe these measures will take us to a higher level, enabling us to provide patients and customers with better healthcare services in term of quality and smart technology application.

## FINANCIAL REVIEW

### Revenue

During the six months ended June 30, 2023, the Group had a revenue of RMB827.8 million (the same period in 2022: RMB748.1 million), representing an increase of 10.7% over the same period in 2022.

The Group's revenue is mainly derived from (i) hair transplant service; (ii) medical hair care service; and (iii) others.

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

	Six months ended June 30,		2022	
	2023			
	RMB'000	%	RMB'000	%
Hair transplant service	640,798	77.4	553,144	73.9
Medical hair care service	171,684	20.7	187,628	25.1
Others	15,325	1.9	7,365	1.0
<b>Total</b>	<b>827,807</b>	<b>100</b>	<b>748,137</b>	<b>100</b>

### *Revenue from hair transplant service*

The Group's revenue from hair transplant service was RMB640.8 million for the six months ended June 30, 2023, representing an increase of 15.9% as compared with RMB553.1 million for the same period in 2022. The increase in revenue from hair transplant service was mainly attributable to the increased number of our patients, which increased by 34.6% from 21,021 for the six months ended June 30, 2022 to 28,304 for the six months ended June 30, 2023.

### *Revenue from medical hair care service*

The Group's revenue from medical hair care service was RMB171.7 million for the six months ended June 30, 2023, representing a decrease of 8.5% as compared with RMB187.6 million for the same period in 2022. The decrease in revenue from medical hair care service is due to the decrease in average spending per medical hair care patient, which decreased by 13.8% from RMB4,886 for the six months ended June 30, 2022 to RMB4,212 for the six months ended June 30, 2023.

### *Revenue from other services*

The Group's revenue from others is mainly derived from the rendering of services and sales of goods by our stand-alone Svenson stores for routine services, which amounted to RMB15.3 million for the six months ended June 30, 2023, representing an increase of 108.1% as compared with RMB7.4 million for the same period in 2022. Such increase in revenue from other services was attributable to the growth in sales of hair care routine services at Svenson stores.

## Costs

During the Reporting Period, the Group's cost of sales and services primarily consisted of staff costs, amortization and depreciation charges, cost of inventories and consumables, operation related expenses and other expenses.

The following table sets forth a breakdown of our cost of sales and services by nature for the periods indicated:

	Six months ended June 30,			
	2023		2022	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Staff costs	<b>140,983</b>	<b>39.1</b>	108,462	40.5
Amortization and depreciation charges	<b>135,846</b>	<b>37.7</b>	93,986	35.1
Cost of inventories and consumables	<b>58,081</b>	<b>16.1</b>	44,440	16.6
Operation related expenses	<b>17,518</b>	<b>4.9</b>	14,402	5.4
Other expenses	<b>7,781</b>	<b>2.2</b>	6,351	2.4
<b>Total</b>	<b><u>360,209</u></b>	<b><u>100</u></b>	<b><u>267,641</u></b>	<b><u>100</u></b>

During the six months ended June 30, 2023, the Group incurred costs of RMB360.2 million (the same period in 2022: RMB267.6 million). In particular, staff costs represent the salaries, wages and bonuses paid to physicians, nurses and other professionals, the increase in which was primarily attributable to increased headcount of our professional medical team to meet the requirements for the continued business expansion of our clinics. Amortization and depreciation charges mainly represent the depreciation of our right-of-use assets and fixed assets, the increase of which was in line with the increased number of our new clinics.

## Gross profit and gross profit margin

During the six months ended June 30, 2023, the Group recorded a gross profit of RMB467.6 million (the same period in 2022: RMB480.5 million), representing a decrease of 2.7% over the same period in 2022. Our gross profit margin was 56.5% (the same period in 2022: 64.2%).

## Other income

The Group's other income mainly consists of government grants and additional value-added tax credit. During the six months ended June 30, 2023, the Group had other income of RMB1.2 million (the same period in 2022: RMB7.8 million).

## Other losses, net

During the six months ended June 30, 2023, the group recorded other net losses of RMB7.4 million (the same period in 2022: RMB1.9 million). Among these, losses on disposal of property, plant and equipment was RMB 4.0 million (the same period in 2022: RMB1.4 million).

## General and administrative expenses

During the six months ended June 30, 2023, the Group incurred general and administrative expenses of RMB174.9 million (the same period in 2022: RMB113.0 million). Our general and administrative expenses primarily consist of (i) staff costs, which represent share-based compensation expenses, wages, benefits and bonuses of our administrative staff; (ii) operation related expenses for our administrative team, which primarily include conference fees, utilities, maintenance fees and rental payments; (iii) professional and consulting service fees incurred in relation to audit services, rental agencies and internet services; (iv) amortization and depreciation charges; and (v) travelling and entertainment expenses. The increase in administrative expenses during the first half of the year as compared with the same period of last year was attributable to the upgrade of our group organizational structure and expansion of business lines.

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

	Six months ended June 30,		2022	
	2023			
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Staff costs	119,976	68.6	68,937	61.0
Operation related expenses	14,086	8.1	10,925	9.7
Amortization and depreciation charges	8,967	5.1	7,078	6.3
Professional and consulting service fees	7,734	4.4	6,069	5.4
Travelling and entertainment expenses	6,350	3.6	4,296	3.8
Others	17,748	10.2	15,728	13.8
<b>Total</b>	<b>174,861</b>	<b>100</b>	<b>113,033</b>	<b>100</b>

## Selling and marketing expenses

During the six months ended June 30, 2023, the Group incurred selling and marketing expenses of RMB498.4 million (the same period in 2022: RMB388.2 million). Our selling and marketing expenses primarily consist of marketing and promotion expenses and staff costs. The increase in selling expenses during the first half of the year as compared with the same period of last year was primarily attributable to the increased inputs in advertising through certain online channels for strengthened brand recognition and enhanced brand value.

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

	Six months ended June 30,		2022	
	2023			
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Marketing and promotion expenses	345,161	69.2	240,915	62.1
Staff costs	127,148	25.5	116,213	29.9
Travelling expenses	8,970	1.8	9,435	2.4
Operation related expenses	5,748	1.2	7,726	2.0
Amortization and depreciation charges	7,307	1.5	7,605	2.0
Others	4,068	0.8	6,352	1.6
<b>Total</b>	<b>498,402</b>	<b>100</b>	<b>388,246</b>	<b>100</b>

## Income tax expenses

During the six months ended June 30, 2023, the Group's income tax expenses decreased by 594.3% to RMB negative 30.2 million from RMB negative 4.4 million for the six months ended June 30, 2022. Such change in income tax expenses was primarily attributable to the recognition of deferred income tax expense for the loss for the current period.

## Net (loss)/profit and net (loss)/profit margin

In light of the foregoing, the Group's net profit decreased from RMB17.6 million for the six months ended June 30, 2022 to net loss of RMB226.2 million for the six months ended June 30, 2023. The Group's net profit margin dropped from 2.4% for the six months ended June 30, 2022 to net loss margin of 27.3% for the six months ended June 30, 2023.

## Inventories

As at June 30, 2023, the Group had inventories of RMB91.2 million (December 31, 2022: RMB88.1 million).

## Trade and other payables

As at June 30, 2023, the Group had trade and other payables of RMB210.6 million (December 31, 2022: RMB144.1 million).

## Cash and cash equivalents and term deposits

As at June 30, 2023, the Group had cash and cash equivalents and term deposits of RMB632.7 million (December 31, 2022: RMB978.0 million), including RMB145.9 million as term deposit (December 31, 2022: RMB412.9 million). We have robust cash flows which are adequate to meet the capital requirements for daily operation and for our plan of future clinic expansion.

## Cash flows

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

	<b>Six months ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Net cash used in operating activities	<b>(24,978)</b>	(80,003)
Net cash generated from/(used in) investing activities	<b>163,055</b>	(100,207)
Net cash used in financing activities	<b>(210,537)</b>	(47,267)
Cash and cash equivalents at beginning of the periods	<b>565,093</b>	1,566,192
Cash and cash equivalents at end of the periods	<b>486,842</b>	1,398,228

## Liquidity and Capital Resources

As at June 30, 2023, the Group had cash and cash equivalents and term deposits of RMB632.7 million (December 31, 2022: RMB978.0 million). As at June 30, 2023, the Group had no bank borrowings (December 31, 2022: nil).

## Capital expenditures

The Group's capital expenditures mainly represent payments for purchase of items of property, plant and equipment and intangible assets.

The following table sets forth a breakdown of our capital expenditures for the periods indicated:

	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Payments for property, plant and equipment	107,083	98,640
Payments for intangible assets	540	2,523
<b>Total</b>	<b>107,623</b>	<b>101,163</b>

During the six months ended June 30, 2023, the Group incurred capital expenditures of RMB107.6 million (During the six months ended June 30, 2022: RMB101.2 million). Such increase in capital expenditures was driven by the business expansion of the Group.

## Indebtedness

The Group's indebtedness mainly includes lease liabilities.

The following table sets forth a breakdown of our indebtedness for the periods indicated:

	June 30,	December 31,
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Audited
<b>Current</b>		
Lease liabilities	182,276	190,554
<b>Non-current</b>		
Lease liabilities	891,299	845,048
<b>Total</b>	<b>1,073,575</b>	<b>1,035,602</b>

## Bank borrowings

As of June 30, 2023, the Group had no outstanding bank borrowings (December 31, 2022: RMB nil).

## Amounts due to related parties (Non-trade)

As at June 30, 2023, the amount due to related parties (non-trade) from the Group is nil (December 31, 2022: nil).

## **Lease liabilities**

We recognize a lease liability with respect to all leases, except for short-term leases and leases of low value assets. As at June 30, 2023, the Group (as lessee) had total lease liabilities of RMB1,073.6 million (December 31, 2022: RMB1,035.6 million), which were unsettled for the remaining terms of the relevant lease agreements.

## **Future plan for material investments and capital assets**

As at June 30, 2023, the Group did not have any future plan for material investments and capital assets (December 31, 2022: nil).

## **Charge of assets**

There was no charge on the Group's assets as at June 30, 2023.

## **Gearing ratio**

Gearing ratio is calculated using bank loans and other borrowings divided by total equity as at the end of such period/year and multiplied by 100%. As at June 30, 2023, the Group's gearing ratio was nil (December 31, 2022: nil).

## **Exchange rates and any related hedges**

The Group has no significant foreign currency risk as all of its operations, assets and liabilities are dominated in RMB which is also its functional currency. The majority of non-RMB assets are bank deposits denominated in USD. As at June 30, 2023, the Group had the cash and cash equivalents of RMB10.5 million denominated in foreign currencies, mainly USD (December 31, 2022: RMB272.6 million, mainly USD). We monitor foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

## **Contingent liabilities**

As at June 30, 2023, the Group did not have any material contingent liabilities (December 31, 2022: Nil).



## **EMPLOYEES AND REMUNERATION POLICY**

As at June 30, 2023, the Group had a total of 4,791 employees, among which 1,657 employees are our professional medical team members. Staff costs were RMB399.7 million for the six months ended June 30, 2023, as compared to RMB299.6 million for the six months ended June 30, 2022.

The Group continues to provide competitive compensation packages, attractive promotion opportunities, diverse training courses and a professional working environment to its employees for the purposes of attracting, nurturing and motivating them to contribute to the Group's business growth and development. Upholding the principle of fairness, impartiality and transparency, we constantly stimulate employees' potentials through developing a staff enhancement mechanism. To promote staff development, the Group has established Yonghe University and developed a comprehensive training system with a view to setting a basis for large-scale standardized talent cultivation. We have also built up a "Hetang Talent Pool", through which we conduct periodic talent inventory and assessment work and establish a talent reserve echelon that enable us to respond to business changes in a swift manner and ensure stable operation of key job positions. In addition, the Group emphasizes to practice a "manager-as-a-servant" management culture, which has not only improved employee satisfaction but also laid a solid foundation for full execution of corporate strategy.

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

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2023 (for the six months ended June 30, 2022: nil).

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

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

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

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

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS**

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

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

## **SUBSEQUENT EVENTS**

Save as disclosed in this announcement, there was no significant event that might affect the Group after the Reporting Period.

## **USE OF PROCEEDS FROM THE GLOBAL OFFERING**

The Company issued 94,424,000 Shares in the Global Offering at HK\$15.80 which were listed on the Main Board of the Stock Exchange on December 13, 2021 and subsequently issued 7,124,500 Shares at HK\$15.8 per Share upon partial exercise of the over-allotment option on January 5, 2022.

The net proceeds from the global offering and partial exercise of the over-allotment option received by the Company, after deduction of the underwriting fees and commissions and other expenses payable by the Company in connection with the global offering, amounted to approximately HK1,526.2 million and the unutilized net proceeds were kept at the bank accounts of the Group as at June 30, 2023.

Please refer to the Prospectus and the announcement dated March 30, 2023 for details.

Details on the applications of the net proceeds from the Listing (adjusted on a pro rata bases based on the actual net proceeds) were disclosed in the Prospectus and subsequently revised and disclosed in the Company's announcement dated March 30, 2023. The following table sets out the revised applications of the net proceeds, actual usage up to June 30, 2023 as well as the expected timeline for utilization:

	Use of proceeds	Planned applications <i>HK\$ million</i>	Percentage of total net proceeds %	Amount utilized as at June 30, 2023 <i>HK\$ million</i>	Amount unutilized as at June 30, 2023 <i>HK\$ million</i>	Expected timeline for full utilization <sup>(Note)</sup>
1	To expand and upgrade existing hair transplant clinics in our network in China	522.5	34.2%	522.5	0	N/A
2	To fund our innovations in product and service offerings	267.1	17.5%	83.0	184.1	By December 2025
3	For investment in research and development to upgrade our service system with cutting-edge technology	148.0	9.7%	28.9	119.2	By December 2025
4	To integrate industry resources to raise brand awareness in China	453.1	29.7%	170.8	282.3	N/A
5	To settle the outstanding balance of the acquisition consideration payable for our acquisition of Nu/Hart Hair	24.2	1.6%	24.2	0	N/A
6	For our working capital and general corporate purposes	111.3	7.3%	111.3	0	N/A
	<b>Total</b>	<b>1,526.2</b>	<b>100%</b>	<b>940.7</b>	<b>585.6</b>	

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Shares during the six months ended June 30, 2023.

## **AUDIT COMMITTEE**

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

## **REVIEW OF INTERIM RESULTS**

The Audit Committee has jointly reviewed with the management and the independent auditors of the Company, the accounting principles and policies adopted by the Company and discussed internal control and financial reporting matters (including the review of the unaudited consolidated financial statements of the Group for the six months ended June 30, 2023, which has been agreed by the independent auditors of the Company) of the Group. The Audit Committee and the independent auditors considered that the interim results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

## **PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This interim results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.yonghegroup.cn](http://www.yonghegroup.cn)), and the 2023 interim report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

## DEFINITIONS

“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of Directors of the Company
“CAGR”	compound annual growth rate, representing the year-over-year growth rate of a value over a specified period of time taking into account the effects of compounding and calculated by subtracting one from the result of dividing the ending value by its beginning value raised to the power of one divided by the period length
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Chairman”	the Chairman of the Board
“China” or the “PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company” or “the Company”	Yonghe Medical Group Co., Ltd. (雍禾醫療集團有限公司), a limited liability company incorporated under the laws of the Cayman Islands on September 17, 2020
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HKD” or “HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of the Shares on the Main Board on December 13, 2021
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Main Board”	the Main Board of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules

“Northwestern China”	an northwestern region of China consisting of Ningxia Autonomous Region and Qinghai Province
“Prospectus”	the prospectus issued by the Company dated December 1, 2021
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reporting Period”	the six-month period from January 1, 2023 to June 30, 2023
“Shareholder(s)”	holder(s) of Share(s)
“Share(s)”	ordinary share(s) with nominal value of US\$0.0000025 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
"United States"	the United States of America
"USD" or "US\$"	United States dollars, the lawful currency of the United States
"%"	per cent

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

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

Hong Kong, August 25, 2023

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