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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

The Group's revenue increased by 25.8% from RMB1,412.8 million for the year ended 31 December 2022 to RMB1,777.3 million for the year ended 31 December 2023.

The Group's gross profit increased by 14.3% from RMB872.6 million for the year ended 31 December 2022 to RMB997.2 million for the year ended 31 December 2023.

Gross profit margin decreased from 61.8% for the year ended 31 December 2022 to 56.1% for the year ended 31 December 2023.

The Group's net loss increased from RMB85.9 million for the year ended 31 December 2022 to net loss of RMB546.7 million for the year ended 31 December 2023.

Basic loss per share was RMB0.16 for the year ended 31 December 2022, as compared to basic loss per share of RMB1.08 for the year ended 31 December 2023.

The Board has resolved not to declare any dividend for the year ended 31 December 2023.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

The Board of Directors is pleased to announce the audited consolidated annual results of the Group for the year ended 31 December 2023, together with the comparative figures for the corresponding period in 2022 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December	
		2023	2022
		RMB'000	RMB'000
Revenue from contracts with customers	3	1,777,258	1,412,791
Cost of sales and services		<u>(780,072)</u>	<u>(540,212)</u>
Gross profit		997,186	872,579
Selling and marketing expenses		(1,044,373)	(766,783)
General and administrative expenses		(374,319)	(257,529)
Research and development expenses		(29,279)	(18,495)
Impairment losses on financial assets		(257)	(138)
Other income	4	2,115	9,687
Other losses – net	5	(82,823)	(942)
Operating loss		(531,750)	(161,621)
Finance income	6	12,701	103,382
Finance costs	6	(66,170)	(51,227)
Finance (costs)/income – net		<u>(53,469)</u>	52,155
Loss before income tax		(585,219)	(109,466)
Income tax credit	7	38,535	23,608
Loss for the year		<u>(546,684)</u>	<u>(85,858)</u>
Loss is attributable to:			
– Equity holders of the Company		(546,394)	(85,858)
– Non-controlling interests		(290)	–
		<u>(546,684)</u>	<u>(85,858)</u>
Other comprehensive loss			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Currency translation differences		<u>(48)</u>	(144)
Total comprehensive loss for the year		<u>(546,732)</u>	<u>(86,002)</u>
Total comprehensive loss for the year is attributable to:			
– Equity holders of the Company		(546,442)	(86,002)
– Non-controlling interests		(290)	–
		<u>(546,732)</u>	<u>(86,002)</u>
Loss per share attributable to equity holders of the Company			
Basic loss per share (RMB)	8	(1.08)	(0.16)
Diluted loss per share (RMB)	8	(1.08)	(0.16)

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 31 December	
		2023	2022
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		618,551	642,296
Right-of-use assets		871,789	989,235
Intangible assets		35,163	39,678
Deferred income tax assets		107,626	60,423
Prepayments, deposits and other receivables		2,106	9,258
		<u>1,635,235</u>	<u>1,740,890</u>
Total non-current assets			
Current assets			
Inventories	10	76,005	88,089
Trade receivables	11	10,267	7,055
Prepayments, deposits and other receivables		119,839	116,301
Term deposits		–	412,940
Cash and cash equivalents		603,215	565,093
		<u>809,326</u>	<u>1,189,478</u>
Total current assets			
		<u>809,326</u>	<u>1,189,478</u>
Total assets			
		<u><u>2,444,561</u></u>	<u><u>2,930,368</u></u>
Equity			
Equity attributable to equity holders of the Company			
Share capital		8	8
Share premium		1,332,287	1,332,287
Shares held for employee share scheme		(175,533)	(79,038)
Other reserves		155,630	155,494
(Accumulated loss)/retained earnings		(369,835)	176,559
		<u>942,557</u>	<u>1,585,310</u>
Non-controlling interests			
		<u>(306)</u>	<u>–</u>
Total equity			
		<u>942,251</u>	<u>1,585,310</u>
Liabilities			
Non-current liabilities			
Lease liabilities		772,693	845,048
Deferred income tax liabilities		6,716	1,502
		<u>779,409</u>	<u>846,550</u>
Total non-current liabilities			
Current liabilities			
Borrowings		152,816	–
Trade and other payables	12	210,873	144,118
Contract liabilities		182,355	154,977
Current income tax liabilities		6,813	8,859
Lease liabilities		170,044	190,554
		<u>722,901</u>	<u>498,508</u>
Total current liabilities			
		<u>722,901</u>	<u>498,508</u>
Total liabilities			
		<u>1,502,310</u>	<u>1,345,058</u>
Total equity and liabilities			
		<u><u>2,444,561</u></u>	<u><u>2,930,368</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Yonghe Medical Group Co., Ltd. (the “Company”) was incorporated in the Cayman Islands on 17 September 2020 as an exempted company with limited liability under the Companies Law, 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 13 December 2021.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2024.

2 BASIS OF PREPARATION

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

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) as issued by the Hong Kong Institute of Certified Public Accountants and requirements of the Hong Kong Companies Ordinance (“HKCO”) Cap. 622.

HKFRSs comprise the following authoritative literature

- Hong Kong Financial Reporting Standards
- Hong Kong Accounting Standards
- Interpretations developed by the Hong Kong Institute of Certified Public Accountants.

(ii) Historical cost convention

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

(iii) New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2023:

- HKFRS 17 Insurance Contracts
- Definition of Accounting Estimates – amendments to HKAS 8
- International Tax Reform – Pillar Two Model Rules – amendments to HKAS 12
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to HKAS 12
- Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2.

The new and amended standards listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods, except for certain amendments in disclosures of deferred income tax.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the board of directors of the Company that make strategic decisions. The Group is principally engaged in the provision of hair transplant service which are subject to similar type of services, similar class of customers, similar regulatory environment and similar business risk. Resources are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific unit. Therefore, the CODM of the Company regards that there is only one operating segment for the Group.

The major operating entities of the Group are all domiciled in the PRC and major of the Group's revenue were derived in the PRC for the year ended 31 December 2023 and 2022.

As at 31 December 2023 and 2022, majority of non-current assets of the Group were located in the PRC.

There was no revenue derived from a single external customer accounting for 10% or more of the Group's revenue for the year ended 31 December 2023 and 2022.

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Hair transplant	1,354,191	1,030,454
Medical hair care	388,244	362,508
Others	34,823	19,829
	<u>1,777,258</u>	<u>1,412,791</u>

Revenue from customer by region	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	1,772,438	1,403,092
Hong Kong	4,820	9,699
	<u>1,777,258</u>	<u>1,412,791</u>

4 OTHER INCOME

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	1,133	7,817
Additional value-added tax credit	982	1,870
	<u>2,115</u>	<u>9,687</u>

5 OTHER LOSSES – NET

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Losses on disposal of property, plant and equipment	(59,849)	(2,036)
Impairment losses of goodwill	(14,832)	–
Impairment losses of property, plant and equipment	(13,297)	–
Net fair value losses on financial liabilities at fair value through profit or loss	(3,636)	–
Compensation	(1,956)	–
Donation	(1,500)	–
Gains on disposal of a subsidiary	7,500	–
Gains on early termination of property leases	6,454	2,121
Others	(1,707)	(1,027)
	<u>(82,823)</u>	<u>(942)</u>

6 FINANCE (COST)/INCOME – NET

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Interest income on bank deposits	12,701	15,262
Foreign exchange gains	–	88,120
	<u>12,701</u>	<u>103,382</u>
Finance costs		
Interest expenses on lease liabilities	(51,741)	(49,622)
Foreign exchange losses	(12,006)	–
Interest expenses on bank borrowings	(2,423)	(1,605)
	<u>(66,170)</u>	<u>(51,227)</u>
Finance (costs)/income – net	<u>(53,469)</u>	<u>52,155</u>

7 INCOME TAX CREDIT

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current income tax expense	(3,454)	(3,744)
Deferred income tax credit	41,989	27,352
Income tax credit	<u>38,535</u>	<u>23,608</u>

(a) Cayman Islands

The Company is incorporated in 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 British Virgin Islands, the subsidiaries incorporated in British Virgin Islands are not subject to income tax.

(c) Hong Kong Profits Tax

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

(d) PRC Corporate Income Tax (“CIT”)

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 17 December 2021, Beijing Yonghe was qualified as High and New Technology Enterprises (“HNTEs”) and is entitled to the preferential income tax rate of 15%. This status is subject to a requirement that Beijing Yonghe reapply for HNTEs status every three years. Certain subsidiaries of the Group are taxed at preferential tax rates of 15% from 1 January 2021 to 31 December 2030 under the relevant tax rules and regulations of PRC. 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 corporate income tax law and related regulations.

8 LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing:

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

	Year ended 31 December	
	2023	2022
Loss for the year attributable to equity holders of the Company (RMB'000)	(546,394)	(85,858)
Less: undistributed loss attributable to unvested restricted shares during vesting period (RMB'000)	<u>8,530</u>	<u>1,882</u>
Loss attributable to the ordinary equity holders of the Company used in calculating basic loss per share (RMB'000)	537,864	(83,976)
Weighted average number of ordinary equity shares in issue ('000)	496,442	512,900
Basic loss per share for profit attributable to ordinary equity holders of the Company during the year (expressed in RMB per share)	<u>(1.08)</u>	<u>(0.16)</u>

(b) Diluted loss per share

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

- undistributed loss 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 are not included in the calculation of dilutive loss per share, which would be anti-dilutive, and the dilutive loss per share is the same as the basic loss per share.

9 DIVIDENDS

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Dividend distribution (a)	–	40,058

- (a) At a meeting of Board held on 28 March 2024, the Board resolved not to propose a final dividend in respect of the year ended 31 December 2023. No dividends have been paid or declared by the Group during the year ended 31 December 2023.

10 INVENTORIES

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Medical hair care consumables	38,284	39,811
Pharmaceuticals and medical consumables	18,184	21,485
Wash and hair care products	16,041	20,596
Others	3,496	6,197
	<u>76,005</u>	<u>88,089</u>
Less: allowance for impairment of inventories	–	–
	<u>76,005</u>	<u>88,089</u>

11 TRADE RECEIVABLES

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables from contracts with customers		
– Third parties	10,283	7,086
Less: allowance for impairment	(16)	(31)
	<u>10,267</u>	<u>7,055</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 from 2021 and generally offers them a credit term of 3 months. The ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Up to 3 months	9,326	6,805
3 to 6 months	941	249
6 months to 1 year	10	22
1-2 years	6	10
	<u>10,283</u>	<u>7,086</u>

12 TRADE AND OTHER PAYABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade payables	76,166	43,968
Accrued employee benefits	68,556	61,136
Tax payables	17,201	13,100
Accrued expenses	15,037	8,197
Refund liabilities	12,009	8,188
Security deposit	12,666	5,691
Note payable	3,250	–
Others	5,988	3,838
	<u>210,873</u>	<u>144,118</u>

- (i) Ageing analysis of trade payables based on invoice date at the end of each reporting period are as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Up to 3 months	54,618	36,190
3 to 6 months	15,872	3,182
6 months to 1 year	2,727	1,669
1 to 2 years	1,051	1,747
Over 2 years	1,898	1,180
	<u>76,166</u>	<u>43,968</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As the leading medical group in China specialising 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” (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 personalised 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 31 December 2023, we operated 75 hair transplant clinics in 72 cities nationwide, and 13 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.

The following map illustrates the distribution of our clinics/centers as at 31 December 2023 by city tier*:



	As at December, 31	
	2023	2022
Yonghe hair transplant clinics		
Tier-one cities	6	5
New tier-one cities	17	19
Tier-two cities	31	27
Tier-three cities	20	11
Hong Kong	1	1
Subtotal	<u>75</u>	<u>63</u>
Stand-alone Svenson stores		
Shenzhen	6	2
Guangzhou	4	4
Shanghai	2	2
Beijing	1	1
Subtotal	<u>13</u>	<u>9</u>
Total	<u>88</u>	<u>72</u>

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

Benefited from our extensive nationwide network of clinics and the organic synergy between our hair transplant service and medical hair care service, our business showed a steady recovery. For the year ended 31 December 2023, the Group had a revenue of RMB1,777.3 million, representing an increase of 25.8% as compared with that of RMB1,412.8 million in 2022. In 2023, the Group recorded a gross profit of RMB997.2 million, generating a gross profit margin of 56.1%.

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

	Year ended 31 December							
	2023		Gross profit margin		2022		Gross profit margin	
	Revenue	%	Revenue	%	Revenue	%	Revenue	%
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
Hair transplant service	1,354,191	76.2	804,124	59.4	1,030,454	72.9	642,597	62.4
Medical hair care service	388,244	21.8	178,937	46.1	362,508	25.7	223,976	61.8
Others	34,823	2.0	14,125	40.6	19,829	1.4	6,006	30.3
Total	<u>1,777,258</u>	<u>100</u>	<u>997,186</u>	<u>56.1</u>	<u>1,412,791</u>	<u>100</u>	<u>872,579</u>	<u>61.8</u>

Hair Transplant Services

For the year ended 31 December 2023, our revenue from hair transplant service amounted to RMB1,354.2 million, representing an increase of 31.4% over last year. 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.

For the year ended 31 December 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 61,071, representing an increase of 55.6% as compared with that of 39,254 in the same period of last year. Those patients who received our mid-to-high end surgical service took up a significantly larger share of the total. In response to the changes in market demand, the Group introduced a “fixed-price” pricing system and expanded the price range of our hair transplant surgical service. In the initial year of implementing the pricing system, average spending per hair transplant patient lowered by 15.5% to RMB22,174 compared with the same period of last year.

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

	Unaudited			
	Year ended 31 December			
	2023		2022	
Number of patients who received our hair transplant service	61,071		39,254	
Average spending per hair transplant patient (<i>RMB</i>)	22,174		26,251	
Three levels of services	Number of patients	Percentage	Number of patients	Percentage
Number of patients who received services from our business chiefs	41,780	68.4%	29,323	74.7%
Number of patients who received services from our business deans	16,253	26.6%	8,872	22.6%
Number of patients who received our “Yongxiang” (雍享) service*	3,038	5.0%	1,059	2.7%

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

Medical Hair Care Services

For the year ended 31 December 2023, our revenue from medical hair care service amounted to RMB388.2 million, representing an increase of 7.1% over last year. As a pioneer in China’s medical hair care industry, we have provided professional and customised diagnosis and treatment services to our patients through Svenson Medical Hair Care Centers in our hair transplant clinics under the “shop-in-shop” model. For the year ended 31 December 2023, the number of patients who received our medical hair care service was 78,687, representing an increase of 24.4% over last year.

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

	Unaudited	
	Year ended 31 December	
	2023	
	2022	
Number of patients who received our medical hair care service	78,687	
Average spending per medical hair care patient (<i>RMB</i>)	4,934	
* Repurchase rate	23.4%	

* 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

During the Reporting Period, the Group significantly strengthened its operational capabilities by implementing a series of strategic initiatives. These initiatives included in-depth analysis of customer needs, market environment and competitive landscape in different regions, optimisation of our pricing system, grading and positioning of our physicians, and promotion of multi-dimensional partitioning strategy, with aims to enhance our efficiency in resource allocation and service quality, and lay a solid foundation for the Group to maintain its industry-leading position and achieve sustainable development.

Our business model has the advantages of high scalability and flexibility, which not only allows us to gain rapid and extensive market penetration and expansion in geographic dimension, but also drives efficient and precise enrichment and innovation in our service offerings and service segmentation models. During the Reporting Period, we opened i) 21 Yonghe Hair Transplant clinics mainly in tier-two and tier-three cities in South China, East China and Central China, with an extended reach to the northwestern region in untapped areas such as Ningxia Hui Autonomous Region and Qinghai; and ii) 7 Svenson centers in Shenzhen and Guangzhou. Meanwhile, in order to optimise our allocation of medical resources and enhance our operational efficiency and overall service quality, we made strategic adjustments by closing down 9 of our Yonghe Hair Transplant clinics and 3 of our Svenson centers in order to achieve a more efficient and precise operation mechanism for the provision of medical services, and further boost the sustainable development and brand upgrading of the Group.

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

	Year ended 31 December	
	2023	2022
Mature-stage clinics	47	37
Developing-stage clinics	12	17
Newly-established clinics	16	9
Total	75	63

* Note: We categorise our clinics based on three development stages, namely mature-stage clinics, being those that have been established for more than three years; developing-stage clinics, being those that have been established for one to three years; and newly-established clinics, being those that have been established for less than one year. For acquired clinics, we regard the dates when their financial positions 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 underwent a complete upgrade of our pricing system for hair transplant service. Instead of the traditional follicle unit-based pricing approach, we adopted a “fixed-price” pricing model under which prices are determined based on follicular plantation intervals and the rank of physician, and integrity, transparency, normalisation and standardisation are used as pricing criteria to avoid any undesirable industry phenomenon 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. *Optimised management of reception process and iterative upgrading of medical service system*

During the Reporting Period, the Group completely optimised our reception process by planning in detail the SOP (standard operating procedures) for reception process in clinics and further deepening and refining all aspects in diagnosis and treatment, in order to significantly enhance the working efficiency and quality standard of our medical services. Also, in respect of treatment mechanism, the Group made an innovative iterative upgrading to our treatment system which covered epicutaneous and subcutaneous pluralistic and combination treatment solutions, combined application of new drugs and products such as those products under the newly introduced collagen collection. Such effort has effectively enhanced our treatment efficiency and clinical outcome, and in turn increased the overall satisfaction of patients.

c. *Optimised product pricing and phased management of efficacy*

In response to the changes in consumption frequency and demand in the medical hair care market, we further optimise our product pricing and treatment efficiency. We also designed a chain path for repurchase according to the four stages of treatment efficacy to clarify management on the patient treatment process and enhance patients’ loyalty.

Improving medical service capabilities

The Group has always been committed to promoting high-quality development of our hair-related healthcare services. In April 2023, the Group fully leveled up its development strategy by introducing the concept of “one-on-one with good doctor”. Through further optimising and advancing our medical service process, cultivating professionalism and aesthetician skills among our physician team, and carrying out iterative updating and deep innovation of our treatment system and product lines, we effectively improved the overall efficiency and quality of our medical services, and provided patients with more professional, precise and personalised medical solutions. With the focus on providing medical services, we adhere to the principle of “treat with medical care and deliver with beauty”, emphasising that professional physicians play an important role in the provision of hair-related healthcare services, and taking the lead toward high-quality development in the hair-related healthcare industry.

During the Reporting Period, the Group evaluated and verified the competence of our outpatient doctors, organised hierarchical group training sessions under the Doctor Team Strengthening Programme and adopted the OMO (online merge office) mentorship model for new physicians, to ensure continued improvement of our physician team’s professionalism and service quality. To keep abreast of and adapt to the dynamic evolution of market demand, we endeavoured to enhance the aesthetic sensitivity and expertise of our medical staff, so that we can offer patients a more satisfying aesthetic experience in the course of providing high-quality medical services. Our effort in integrating medical aesthetic into hair transplant surgery together with our continuous training enable us to ensure that our medical staff has the ability to precisely identify and realise patients’ personalised aesthetic expectations of treatment effects on top of meeting medical needs, and thereby fully improve the overall quality of our medical services and patients’ satisfaction.

As at 31 December 2023, the Group has built a professional medical team consisting of 1,612 members:

	As at 31 December 2023
Our professional team	1,612
– Physicians	350
– Nurses	1,149
– Other medical professionals (including pharmacists and clinical scientists)	113

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 favourable and upward development of the hair-related healthcare industry. In the meantime, we proactively promoted cooperation among the industry, universities and research institutes by taking the lead in introducing advanced technologies and facilities to raise hospitals’ standard of diagnosis and treatment for the provision of medical services in a more regulated, standardised and refined 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 further implemented its strategies of brand refreshment and refined marketing with focus on in-depth optimisation and value creation for its brand assets. We strategically upgraded and precisely optimised the Group’s brand profile on a comprehensive scale by changing our logo, upgrading our visual identity system and strengthening our brand positioning. Through these initiatives, we successfully rebranded ourselves as a more modern and professional enterprise with high reputation, which effectively increased brand recognition and loyalty among consumers and further consolidated and enhanced our brand reputation and influence in the market.

Moreover, the Group adopted a refined strategic marketing plan. By using our data analysis results and market insights, refining our market segmentation, precisely defining our targets and implementing personalised marketing strategies, we accurately approached our target consumer clusters. Meanwhile, we developed a cross-platform content marketing ecosystem that forms a communication matrix, enabling us to gradually blaze a trail to successful marketing and promotion with high output, coverage and consolidated revenue. During the Reporting Period, we strategically partnered with famous variety shows to comprehensively penetrate the market through outdoor advertising, and joined forces with Xinhuanet (新華網) to launch creative branding events such as the “Hair Forest Community Program” (毛髮森林公益計劃). These cooperation activities served as an effective tool for more extensive communication of our brand message and more precise penetration to our core markets in cities. Not only did they deepen user’s awareness of our brand and create optimised and upgraded experience to users, but also forcefully drove remarkable dual improvement in our brand influence and business performance, making us achieve coordinated development of brand value and market share.

Promoting development of digital technology and emphasising innovation of smart technology

Innovation and application of digital technology are important means of increasing operating efficiency and enhancing patients’ experience. During the Reporting Period, we made substantial progress in operation digitalisation, marketing digitalisation and smart technology innovation. We also made efforts in strengthening our system for customer data privacy protection and our mechanism for information security defense, in order to equip the Group with stronger overall operational efficiency and market competitive strengths:

a. Operation digitalisation

During the Reporting Period, we successfully developed and deployed our “Hefan” (禾帆) core business system (Phase I), under which we carried out in-depth optimisation and iterative upgrading of our key business processes. Also, we launched our “Yonghe Hair Health Internet Hospital” (雍禾毛髮健康互聯網醫院) mini program, which is a platform that features online distance diagnosis and treatment, enables users to make direct purchases of our high-quality hair health products, allows integrated management of information about users’ online and offline services rights, and offers users’ significantly more convenient and efficient service experience.

b. Marketing digitalisation

We successfully completed our development and put into commission of our homegrown task-oriented marketing customer management system, which can improve the efficiency of customer invitation and management. We also successfully completed seamless integration and overall upgrade between the marketing customer management system and WeCom (企業微信) and our “Hefan” core business system, allowing the standard operating procedures (SOP) for private domain marketing to achieve precise positioning and approach our target customer groups and effectively drive the implementation of our refined marketing strategy, thereby fully improving our marketing effects and exploration of customer value.

c. Smart technology innovation

We strongly believe that AI technology is critical to optimising the designing of surgical solutions and enhancing users’ experience. During the Reporting Period, the Group activated the first phase of our “Yonghe Smart Clinic” R&D project, in which we built the prototype system of “3D model-aided design of hair transplant solutions”, conducted the verification of technical feasibility and collected users’ feedbacks. On this basis, we submitted four patent applications, which demonstrated our innovation capability in the designing of smart surgical solutions.

In smart marketing dimension, we actively looked into the possibility of using AI chatbot technology as an alternative to part of our manned services in online consultation. Based on our experiments, such initiative not only improves the timeliness of and the satisfaction to our customer service response, but also validates the potential value of using AI for improving the efficiency of online consultation.

PROSPECTS

The hair-related healthcare service 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 compound annual growth rate of 22.3%. In 2023, the number of patients who received our services was 130,000, representing an increase of 27.2% 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 favourable 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.

Refined operation of clinics with reduced costs and increased efficiency

While adhering to the core value of medical service quality, the Group unswervingly pursues effective cost control and substantial enhancement in operational efficiency. We will strive to achieve dual optimisation of economic and social benefits by upholding a scientifically rigorous attitude and adopting a refined management approach.

Firstly, our works on our marketing investment strategy are to deeply examine and sophisticatedly optimise our existing marketing model, and use data analysis tools and techniques to precisely identify our target audience for a more accurate advertising placement and higher conversion rate. Meanwhile, we will strictly implement our budget control mechanism by way of rational planning and allocation of marketing resources to ensure generation of maximum output benefits from all our investments, thereby forming a virtuous circle that will lead to continued enhancement of brand influence and market competitiveness.

Secondly, to better manage our labor cost, the Group will introduce a people-oriented strategy for human resources optimisation. On the premises of fully respecting employees' interests, we will make adjustments and improvements in the allocation of human resources, striving to unleash the potentials of our employees to the fullest extent so as to enhance the overall efficiency of our human resources. We will develop a fair and reasonable remuneration system and incentive mechanism that can stimulate employees' work enthusiasm and innovative vitality, and in turn boost the overall organisational performance.

In addition, we will commit ourselves to executing our strategy of refined operation, and conducting in-depth analysis of, and exercising strict control over, the operating costs of our clinics. Specifically, the measures we take include, without limitation to, promoting a centralised procurement management to reduce procurement costs of supplies; advocating the concept of energy conservation and emission reduction to optimise our structure of energy consumption for effective reduction of clinics' controllable costs and further enhance economic efficiency. At the same time, we will strengthen our work on optimising our allocation of medical resources, in particular of making more efficient use of our operating rooms, nursing booths and other key medical facilities, to ensure full utilisation of our medical resources.

Furthermore, in order to increase the area efficiency and utilisation rate of our operating rooms, we will use information technology to streamline and optimise our medical process, for the purposes of shortening patients' waiting time from making appointment for consultation to completion of treatment and enhancing patients' medical experience, so as to receive a higher level of satisfaction and better reputation. In the meantime, as we have seamlessly connected in all aspects under our medical services which are well-coordinated, we will further explore the potential of unlocking greater value with limited medical resources. Our ultimate goal is to enable the Group to achieve excellence in cost control and enhance operational efficiency while ensuring high-quality medical services.

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 diverse market demands. We will strive to increase patients' confidence, satisfaction and loyalty with our medical 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 investment 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 become more professional, conduct diagnosis and treatment highly efficiently and provide patients with more personalised and precise medical-grade healthcare, thereby to build good reputation for the Group.

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

Adhering to technology-oriented operation presents us a unique advantage that differentiates us from competitors in the hair-related healthcare industry, enables us to further improve patients' experience 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 fully promote the second-phase development project for our “Hefan” new business system, which upon completion, will make available a number of product features including full-cycle digital customer health record management, automated inventory management and paperless clinic office. This will further optimise and enhance the working efficiency of our front-line business positions and allow us to realise refined management of inventory and supplies consumption. Moreover, we will actively promote the launch of our “business-finance integration” system under which we will achieve automated financial reconciliation and enhance our manpower efficiency and accuracy of handling business and financial aspects through real-time connection between our business system and financial accounting system, which can help the Group make more scientific and accurate decisions.
- We are deploying and launching the “intelligent quality inspection system,” which conducts comprehensive quality inspection analysis of service communication contents through AI natural language processing technology, so as to ensure our delivery of high-standard professional services throughout patients' journeys. Also, as an initiative specific to online user interaction scenarios, we will carry out an iterative upgrade of our hair health mini program to strengthen our collection and refined management of tags about customer interactive contents. The purposes are to promote hierarchical operation in our operation of private-domain traffic based on user tags, accurately understand the needs of our customers, and continuously refining the traffic-driving channel, so as to develop our mini program as a powerful tool and conversion platform for marketing, promotion and clinic services.
- We will activate our Yonghe Smart Clinic 2.0 Project with our efforts focusing on research and development of the next generation of “smart hair examination equipment”. This will be an equipment that combines all functions such as 3D imaging technology for head and face models and follicle testing, enabling the process of our diagnosis and treatment services to be integrated. On this basis, we will continue to iterate our product capabilities such as hair transplant effect simulation system and digital human virtual hair styling, striving to lead the development direction of the industry through technological innovation and provide more personalised hair health management solutions for patients.

Nowadays, the current development of artificial intelligence (AI) technology is advancing rapidly and gaining widespread recognition in the industry. Looking into the future, we believe that there is a huge room for the development of innovative application of AI in the professional hair health sector. In this connection, we will collaborate with partners to explore the possibilities of innovative applications of large language models(LLM) and generative AI in the vertical field of hair health.

FINANCIAL REVIEW

Revenue

In 2023, the Group had a revenue of RMB1,777.3 million (2022: RMB1,412.8 million), representing an increase of 25.8% over last year. The Group's revenue is mainly derived from (i) hair transplant service; (ii) medical hair care service; and (iii) others.

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

	Year ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Hair transplant service	1,354,191	76.2	1,030,454	72.9
Medical hair care service	388,244	21.8	362,508	25.7
Others	34,823	2.0	19,829	1.4
Total	1,777,258	100.0	1,412,791	100.0

Revenue from hair transplant service

The Group's revenue from hair transplant service was RMB1,354.2 million (2022: RMB1,030.5 million) for the year ended 31 December 2023, representing an increase of 31.4% over last year. Such increase in revenue from hair transplant services was primarily attributable to the increased number of our patients. The number of hair transplant patients served by the Group increased by 55.6% from 39,254 in 2022 to 61,071 in 2023 and the average spending per hair transplant patient decreased from RMB26,251 in 2022 to RMB22,174 in 2023.

Revenue from medical hair care services

The Group's revenue from medical hair care services was RMB388.2 million (2022: RMB362.5 million) for the year ended 31 December 2023, representing an increase of 7.1% over last year. Same as our hair transplant services, the number of medical hair care patients served by the Group increased by 24.4% from 63,257 in 2022 to 78,687 in 2023 and the average spending per medical hair care patient decreased from RMB5,731 in 2022 to RMB4,934 in 2023.

Revenue from others

The Group's revenue from other services mainly derived from the rendering of services and sales of goods by our stand-alone Svenson stores for routine services, which amounted to RMB34.8 million (2022: RMB19.8 million) in 2023.

Costs

During the Reporting Period, the Group's cost of sales and services primarily consisted of staff costs, amortisation and depreciation charges, cost of inventories and consumables, operation related expenses and other expenses. The following table sets forth a breakdown of our cost of sales and services by nature for the years indicated:

	Year ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Staff costs	297,149	38.1	208,248	38.6
Amortisation and depreciation charges	304,217	39.0	194,564	36.0
Cost of inventories and consumables	123,286	15.8	94,216	17.4
Operation related expenses	39,203	5.0	29,919	5.5
Other expenses	16,217	2.1	13,265	2.5
Total	780,072	100.0	540,212	100.0

During 2023, the Group incurred costs of RMB780.1 million (2022: RMB540.2 million), representing an increase of 44.4% over last year. In particular, staff costs represent the salaries, wages and bonuses paid to physicians, nurses and other professionals. The increase of staff costs was mainly attributable to increased headcount of our professional medical team and increased performance-based bonus in line with revenue from hair transplant service. Amortisation and depreciation charges mainly represent the depreciation of our right-of-use assets and fixed assets, the increase of which was in line with the increased number of our new clinics.

Gross profit and gross profit margin

In 2023, the Group recorded a gross profit of RMB997.2 million (2022: RMB872.6 million), representing an increase of 14.3% over last year. Our gross profit margin was 56.1% (2022: 61.8%).

Other income

The Group's other income mainly consists of government grants and additional value-added tax credit. In 2023, the Group had other income of RMB2.1 million (2022: RMB9.7 million).

General and administrative expenses

During 2023, the Group incurred general and administrative expenses of RMB374.3 million (2022: RMB257.5 million). Our general and administrative expenses primarily consist of (i) staff costs, which represent share-based compensation expenses, wages, benefits and bonuses of our administrative staff; (ii) operation related expenses for our administrative team, which primarily include conference fees, utilities, maintenance fees and rental payments; (iii) professional and consulting service fees incurred in relation to audit services, rental agencies and internet services; and (iv) amortisation and depreciation charges. The increase in administrative expenses during the year ended 31 December 2023 as compared with the year ended 31 December 2022 was attributable to the upgrade of our group organisational structure and expansion of business lines.

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

	Year ended 31 December			
	2023		2022	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Staff costs	247,605	66.1	168,500	65.4
Operation related expenses	29,824	8.0	19,384	7.5
Professional and consulting service fees	19,256	5.1	13,278	5.2
Amortisation and depreciation charges	17,366	4.6	15,396	6.0
Travelling and entertainment expenses	17,822	4.8	8,289	3.2
Others	42,446	15.5	32,682	12.7
Total	374,319	100.0	257,529	100.0

Selling and marketing expenses

In 2023, the Group incurred selling and marketing expenses of RMB1,044.4 million (2022: RMB766.8 million). Our selling and marketing expenses primarily consist of marketing and promotion expenses, and staff costs. The increase in selling and marketing expenses during the year ended 31 December 2023 as compared with the year ended 31 December 2022 was mainly attributable to phase-wise explorations in expanding online customer acquisition channels.

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

	Year ended 31 December			
	2023		2022	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Marketing and promotion expenses	722,885	69.2	481,202	62.8
Staff costs	264,161	25.3	225,878	29.5
Travelling expenses	20,030	1.9	18,299	2.4
Operation related expenses	13,282	1.3	13,895	1.8
Amortisation and depreciation charges	13,257	1.3	14,499	1.9
Others	10,758	1.0	13,010	1.6
Total	1,044,373	100.0	766,783	100.0

Income tax credit

In 2023, the Group's income tax credit was RMB38.5 million compared to the income tax credit of RMB23.6 million in 2022. The change in income tax credit was primarily attributable to the deferred income tax recognised for the temporary loss for the year.

Net loss and net loss margin

In light of the foregoing, the Group's net loss increased from RMB85.9 million in 2022 to RMB546.7 million in 2023. The Group's net loss margin increased from 6.1% in 2022 to 30.8% in 2023.

Liquidity and Capital Resources

As at 31 December 2023, cash and cash equivalents of the Group amounted to RMB603.2 million (2022: RMB565.1 million). As at 31 December 2023, total bank borrowings of the Group amounted to RMB152.8 million (2022: nil).

Taking into account the capital generated internally, the banking facilities available to the Group and the net current assets of approximately RMB86.4 million as at 31 December 2023, the Directors believe that the Group has sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Cash flows

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

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash used in operating activities	(17,153)	(108,562)
Net cash generated from/(used in) investing activities	245,582	(650,565)
Net cash used in financing activities	(185,204)	(333,054)
Cash and cash equivalents at beginning of the year	565,093	1,566,192
Exchange (losses)/gains on cash and cash equivalents	(5,103)	91,082
	<hr/>	<hr/>
Cash and cash equivalents at end of the year	<u>603,215</u>	<u>565,093</u>

Cash and cash equivalents and term deposits

As at 31 December 2023, the Group had cash and cash equivalents and term deposits of RMB603.2 million (2022: RMB978.0 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.

Capital expenditures

The Group's capital expenditures mainly represent payments for purchase of items of property, plant and equipment and intangible assets. The following table sets forth a breakdown of our capital expenditures for the years indicated:

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Payments for property, plant and equipment	159,192	240,573
Payments for intangible assets	12,123	2,940
Total	<u>171,315</u>	<u>243,513</u>

In 2023, the Group incurred capital expenditures of RMB171.3 million (2022: RMB243.5 million).

Inventories

As at 31 December 2023, the Group had inventories of RMB76.0 million (2022: RMB88.1 million).

Trade and other payables

As at 31 December 2023, the Group had trade and other payables of RMB210.9 million (2022: RMB144.1 million).

Indebtedness

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

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Current		
Bank borrowings	152,816	–
Lease liabilities	170,044	190,554
	322,860	190,554
Non-current		
Lease liabilities	772,693	845,048
Total	<u>1,095,553</u>	<u>1,035,602</u>

Bank borrowings

As at 31 December 2023, the Group had outstanding interest-bearing bank borrowings of RMB152.8 million (2022: nil). Our bank loans bear interest at rates ranging from 2.6% to 3.4% per annum (2022: 3.85% to 4.9%).

Lease liabilities

We recognise a lease liability with respect to all leases, except for short-term leases and leases of low value assets. As at 31 December 2023, the Group (as lessee) had total lease liabilities of RMB942.7 million (31 December 2022: RMB1,035.6 million), which were unsettled for the remaining terms of the relevant lease agreements.

Contingent liabilities

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

Future plan for material investments and capital assets

Save as disclosed in the Prospectus, for the year ended 31 December 2023, the Group did not have any future plan for material investments and capital assets.

Material acquisitions and disposals

During the year ended 31 December 2023, the Group did not make any material acquisitions or disposals of subsidiaries, associates and joint ventures.

As at 31 December 2023, the Group did not hold any significant investments in the equity interests of any other companies.

Charge of assets

There was no charge on the Group's assets as at 31 December 2023.

Gearing ratio

Gearing ratio is calculated using bank loans and other borrowings divided by total equity as of the end of such year and multiplied by 100%. As at 31 December 2023, the Group's gearing ratio was 16.2% (31 December 2022: nil).

Exchange rates and any related hedges

The Group has no significant foreign currency risk as its operations, assets and liabilities are mainly dominated in RMB which is also the functional currency of the Company. As at 31 December 2023, the Group had the cash and cash equivalents of RMB13.2 million denominated in foreign currencies, mainly HKD (2022: RMB272.6 million, mainly USD). We monitor foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2023, the Group had a total of 4,319 employees, among which 1,612 employees are our professional medical team members. Staff costs were RMB835.1 million for the year ended 31 December 2023, as compared to RMB616.7 million for the year ended 31 December 2022.

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

FINAL DIVIDEND

The Board has resolved not to declare any final dividend for the year ended 31 December 2023.

ANNUAL GENERAL MEETING

The AGM will be held on 21 June 2024. A notice convening the AGM and all other relevant documents will be published on the websites of the Company (www.yonghegroup.cn) and the Stock Exchange (www.hkexnews.hk) and despatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining entitlement of the Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from 18 June 2024 to 21 June 2024 (both days inclusive). In order to qualify for attending and voting at the AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration by 4:30 p.m. on 17 June 2024.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

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

MODEL CODE

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

Specific enquiry has been made to 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

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 13 December 2021 and subsequently issued 7,124,500 Shares at HK\$15.80 per Share upon partial exercise of the over-allotment option on 5 January 2022.

The net proceeds from the global offering and partial exercise of the over-allotment option received by the Company, after deduction of the underwriting fees and commissions and other expenses payable by the Company in connection with the global offering, amounted to approximately HK\$1,526.2 million and the unutilised net proceeds were kept at the bank accounts of the Group as at 31 December 2023.

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

Details on the applications of the net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) were disclosed in the Prospectus and subsequently revised and disclosed in the Company's announcement dated 30 March 2023. The following table sets out the original and the revised applications of the net proceeds, actual usage up to 31 December 2023 as well as the expected timeline for utilisation:

Use of proceeds	Original planned applications <i>HK\$ million</i>	Percentage of total net proceeds <i>%</i>	Amount utilised as at 31 December 2022 <i>HK\$ million</i>	Amount unutilised as at 30 March 2023 <i>HK\$ million</i>	Revised amounts of unutilised Net Proceeds as at 30 March 2023 <i>HK\$ million</i>	Amount utilised as at 31 December 2023 <i>HK\$ million</i>	Amount unutilised as at 31 December 2023 <i>HK\$ million</i>	Expected timeline for full utilisation ^(Note) <i>HK\$ million</i>
1	To expand and upgrade existing hair transplant clinics in our network in China	642.6	42.1	364.6	184.7	64.7	522.5	0 N/A
2	To fund our innovations in product and service offerings	267.1	17.5	36.4	222.3	222.3	117.7	149.4 By December 2025
3	For investment in research and development to upgrade our service system with cutting-edge technology	148.0	9.7	8.6	136.1	136.1	43.0	105.0 By December 2025
4	To integrate industry resources to raise brand awareness in China	357.1	23.4	74.8	282.3	378.3	170.8	282.3 By December 2025
5	To settle the outstanding balance of the acquisition consideration payable for our acquisition of Nu/Hart Hair	24.4	1.6	24.2	0.2	0	24.2	0 N/A
6	For our working capital and general corporate purposes	87.0	5.7	87.0	0	24.2	111.3	0 N/A
Total		<u>1,526.2</u>	<u>100.0</u>	<u>595.6</u>	<u>825.6</u>	<u>825.6</u>	<u>989.5</u>	<u>536.7</u>

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 year ended 31 December 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 ANNUAL RESULTS

The Audit Committee has jointly reviewed with the management and the independent auditors of the Company, the accounting principles and policies adopted by the Company and discussed internal control and financial reporting matters (including the review of the audited consolidated financial statements of the Group for the year ended 31 December 2023, which has been agreed by the independent auditors of the Company) of the Group. The Audit Committee and the independent auditors consider that the annual results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2023 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2023. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

DEFINITIONS

“AGM”	annual general meeting of the Company
“Board” or “Board of Directors”	the board of Directors of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix C1 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” or “we”	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 17 September 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 of the Stock Exchange on 13 December 2021
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Main Board”	Main Board of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 to the Listing Rules
“Prospectus”	the prospectus issued by the Company dated 1 December 2021
“Renminbi” or “RMB”	Renminbi Yuan, the lawful currency of the PRC
“Reporting Period”	the twelve-month period from 1 January 2023 to 31 December 2023
“Share(s)”	ordinary share(s) with nominal value of US\$0.0000025 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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, chief executive officer and
executive Director*

Hong Kong, 28 March 2024

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.