

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

YONGHE **雍禾医疗**

Yonghe Medical Group Co., Ltd.

雍禾醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2279)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

FINANCIAL HIGHLIGHTS

The Group's revenue increased by 8.7% from RMB827.8 million for the six months ended 30 June 2023 to RMB900.2 million for the six months ended 30 June 2024.

The Group's gross profit increased by 13.2% from RMB467.6 million for the six months ended 30 June 2023 to RMB529.4 million for the six months ended 30 June 2024.

Gross profit margin increased from 56.5% for the six months ended 30 June 2023 to 58.8% for the six months ended 30 June 2024.

The Group's net loss narrowed by 38.7% from RMB226.2 million for the six months ended 30 June 2023 to RMB138.6 million for the six months ended 30 June 2024.

Basic loss per Share was RMB0.44 for the six months ended 30 June 2023, as compared to basic loss per Share of RMB0.28 for the six months ended 30 June 2024.

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2024.

The Board is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2024, together with the comparative figures for the corresponding period in 2023 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June	
		2024 RMB'000 Unaudited	2023 RMB'000 Unaudited
Revenue from contracts with customers	4	900,203	827,807
Cost of sales and services	6	<u>(370,766)</u>	<u>(360,209)</u>
Gross profit		529,437	467,598
Selling and marketing expenses	6	(462,573)	(498,402)
General and administrative expenses	6	(140,970)	(174,861)
Research and development expenses	6	(12,425)	(13,025)
Impairment losses on financial assets		(80)	(276)
Other income		778	1,222
Other losses – net	5	<u>(44,816)</u>	<u>(7,388)</u>
Operating loss		(130,649)	(225,132)
Finance income	7	5,524	7,587
Finance costs	7	<u>(21,574)</u>	<u>(38,883)</u>
Finance costs – net	7	<u>(16,050)</u>	<u>(31,296)</u>
Loss before income tax		(146,699)	(256,428)
Income tax credit	8	<u>8,051</u>	<u>30,237</u>
Loss for the period		(138,648)	(226,191)
Loss is attributable to			
– Equity holders of the Company		(138,572)	(226,191)
– Non-controlling interests		<u>(76)</u>	<u>–</u>
Other comprehensive loss			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Currency translation differences		<u>(6)</u>	<u>(15)</u>
Total comprehensive loss for the period		<u>(138,654)</u>	<u>(226,206)</u>
Total comprehensive loss for the period is attributable to:			
– Equity holders of the Company		(138,578)	(226,206)
– Non-controlling interests		<u>(76)</u>	<u>–</u>
Loss per share attributable to equity holders of the Company			
Basic loss per share (RMB)	9	(0.28)	(0.44)
Diluted loss per share (RMB)	9	<u>(0.28)</u>	<u>(0.44)</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 30 June 2024 <i>RMB'000</i> Unaudited	As at 31 December 2023 <i>RMB'000</i> Audited
Assets			
Non-current assets			
Property, plant and equipment		505,562	618,551
Right-of-use assets		702,151	871,789
Intangible assets		38,150	35,163
Deferred income tax assets		119,121	107,626
Prepayments, deposits and other receivables	12	2,745	2,106
Total non-current assets		1,367,729	1,635,235
Current assets			
Inventories	13	62,616	76,005
Trade receivables	11	10,399	10,267
Prepayments, deposits and other receivables	12	111,140	119,839
Cash and cash equivalents		533,780	603,215
Restricted cash		1,133	–
Total current assets		719,068	809,326
Total assets		2,086,797	2,444,561
Equity			
Equity attributable to equity holders of the Company			
Share capital		8	8
Share premium		1,330,498	1,332,287
Treasury shares		(47)	–
Shares held for employee share scheme		(175,533)	(175,533)
Other reserves		155,681	155,630
Accumulated losses		(508,407)	(369,835)
		802,200	942,557
Non-controlling interests		(382)	(306)
Total equity		801,818	942,251

	<i>Note</i>	As at 30 June 2024 <i>RMB'000</i> Unaudited	As at 31 December 2023 <i>RMB'000</i> Audited
Liabilities			
Non-current liabilities			
Lease liabilities		623,825	772,693
Deferred income tax liabilities		4,434	6,716
		<hr/>	<hr/>
Total non-current liabilities		628,259	779,409
		<hr/>	<hr/>
Current liabilities			
Borrowings		132,628	152,816
Trade and other payables	<i>14</i>	168,204	210,873
Contract liabilities	<i>15</i>	199,128	182,355
Current income tax liabilities		9,152	6,813
Lease liabilities		147,608	170,044
		<hr/>	<hr/>
Total current liabilities		656,720	722,901
		<hr/>	<hr/>
Total liabilities		1,284,979	1,502,310
		<hr/>	<hr/>
Total equity and liabilities		2,086,797	2,444,561
		<hr/> <hr/>	<hr/> <hr/>

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 17 September 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 13 December 2021.

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

The condensed consolidated interim financial information have been approved for issue by the Board of Directors on 22 August 2024.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2024 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 31 December 2023, 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 31 December 2023, as described in the annual consolidated financial statements.

3.1 New and amended standards adopted by the Group

The Group has applied the following amendments for the first time from 1 January 2024:

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants – Amendments to HKAS 1;
- Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause – HK Int 5 (Revised);
- Supplier Finance Arrangements – Amendments to HKAS 7 and HKFRS 7; and
- Lease Liability in Sale and Leaseback – Amendments to HKFRS 16.

As a result of the adoption of the amendments to HKAS 1, the Group changed its accounting policy for the classification of borrowings as below:

“Borrowings are classified as current liabilities unless at the end of the reporting period, the Group has a right to defer settlement of the liability for at least 12 months after the reporting period.”

This new policy did not result in a change in the classification of the Group’s borrowings. The Group did not make retrospective adjustments as a result of adopting the amendments to HKAS 1.

3.2 Impact of standards not yet applied by the Group

In September 2023, HKICPA amended HKAS 21 to help entities to determine whether a currency is exchangeable into another currency, and which spot exchange rate to use when it is not. These new requirements will apply for annual reporting periods beginning on or after 1 January 2025. The Group does not expect these amendments to have a material impact on its operations or financial statements.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	Unaudited	Unaudited
Hair transplant	672,885	640,798
Medical hair care	215,176	171,684
Others	12,142	15,325
	<u>900,203</u>	<u>827,807</u>
	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	Unaudited	Unaudited
Revenue from customer and recognised at a point time		
Hair transplant	672,885	640,798
Medical hair care – sale of goods	30,845	33,400
Others – sale of goods	4,299	5,405
	<u>708,029</u>	<u>679,603</u>
Revenue from customer and recognised over time		
Medical hair care – services	184,331	138,284
Others – services	7,843	9,920
	<u>192,174</u>	<u>148,204</u>
Total	<u>900,203</u>	<u>827,807</u>
	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	Unaudited	Unaudited
Revenue from customer by region		
Mainland China	898,745	825,034
Hong Kong	1,458	2,773
	<u>900,203</u>	<u>827,807</u>

5. OTHER LOSSES, NET

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Losses on disposal of property, plant and equipment	(34,016)	(3,981)
Impairment losses of property, plant and equipment	(14,064)	–
Gains on early-termination of property leases	2,682	2,337
Net fair value losses on financial assets at fair value through profit or loss	–	(4,132)
Others	582	(1,612)
	<u>(44,816)</u>	<u>(7,388)</u>

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:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Employee benefits expenses	371,270	399,747
Promotion and marketing related expenses	322,749	345,161
Depreciation of property, plant and equipment	85,862	73,143
Depreciation of right-of-use assets	81,302	77,652
Cost of inventories and consumables	50,549	58,081
Utilities, maintenance fee and office expenses	29,103	33,103
Taxes and surcharges	14,147	13,660
Travelling and entertainment expenses	10,844	15,321
Technical fee	5,629	6,545
Rental expenses for short-term leases	3,049	4,492
Amortisation of intangible assets	1,411	1,325
Auditor's remuneration	930	930
Other expenses	9,889	17,337
	<u>986,734</u>	<u>1,046,497</u>

7. FINANCE COSTS – NET

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Finance income		
Interest income on bank deposit	5,476	7,587
Foreign exchange gains	48	–
	<u>5,524</u>	<u>7,587</u>
Finance costs		
Interest expenses for lease liabilities	(18,924)	(27,598)
Foreign exchange losses	–	(11,285)
Interest expense on bank borrowings	(2,650)	–
	<u>(21,574)</u>	<u>(38,883)</u>
Finance costs – net	<u>(16,050)</u>	<u>(31,296)</u>

8. INCOME TAX CREDIT

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Current income tax	(5,726)	(3,884)
Deferred income tax	13,777	34,121
	<u>8,051</u>	<u>30,237</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 Corporate 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 17 December 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. 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 enterprise income tax law and related regulations.

9. 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 loss 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 30 June	
	2024	2023
	Unaudited	Unaudited
Loss for the period attributable to equity holders of the Company (<i>RMB'000</i>)	(138,572)	(226,191)
Less: loss attributable to unvested restricted shares during vesting period (<i>RMB'000</i>)	<u>2,170</u>	<u>5,088</u>
Loss attributable to the ordinary equity holders of the Company used in calculating basic loss per share (<i>RMB'000</i>)	(136,402)	(221,103)
Weighted average number of ordinary equity shares in issue ('000)	492,937	501,887
Basic loss per share for loss attributable to ordinary equity holders of the Company during the period (expressed in RMB per share)	<u>(0.28)</u>	<u>(0.44)</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:

- 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 was the same as the basic loss per share.

As the Group incurred losses for the six months ended 30 June 2024 and the six months ended 30 June 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.

(c) Information concerning the classification of securities

Restricted shares granted to employees under share award schemes are not regarded as outstanding until they are vested. The restricted shares have not been included in the determination of basic loss per share. Restricted shares are attributed to loss during the vesting period, and the numerator should be adjusted for loss attributable to unvested restricted shares. These shares are excluded from the weighted average number of ordinary shares for the calculation of basic loss per share.

Restricted shares have been included in the determination of diluted loss per share. The adjustments to basic loss per share are added back to the numerator in diluted loss per share.

10. DIVIDENDS

No dividend has been paid or declared by the Company during the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

11. TRADE RECEIVABLES

	As at 30 June 2024 <i>RMB'000</i> Unaudited	As at 31 December 2023 <i>RMB'000</i> Audited
Trade receivables from contracts with customers – Third parties	10,428	10,283
Less: allowance for impairment	<u>(29)</u>	<u>(16)</u>
	<u>10,399</u>	<u>10,267</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 30 June 2024 <i>RMB'000</i> Unaudited	As at 31 December 2023 <i>RMB'000</i> Audited
Up to 3 months	10,244	9,326
3 to 6 months	175	941
6 months to 1 year	4	10
1-2 years	<u>5</u>	<u>6</u>
	10,428	10,283
Less: allowance for impairment	<u>(29)</u>	<u>(16)</u>
	<u>10,399</u>	<u>10,267</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 30 June 2024 RMB'000 Unaudited	As at 31 December 2023 RMB'000 Audited
Included in current assets		
Prepayments		
Advertising and information technology services fee	15,397	15,975
Professional and agency service fees	7,097	7,872
Purchase of inventories	3,026	992
Rental and property management fees	2,571	3,655
Others	1,527	4,866
	<u>29,618</u>	<u>33,360</u>
Deductible input VAT	<u>5,882</u>	<u>8,771</u>
Other receivables		
Deposits	69,062	69,920
Cash advance to employees (a)	4,305	3,630
Others	4,941	6,759
	<u>78,308</u>	<u>80,309</u>
Less: provision for impairment of other receivables	<u>(2,668)</u>	<u>(2,601)</u>
	<u>75,640</u>	<u>77,708</u>
Subtotal	111,140	119,839
Included in non-current assets	<u>2,745</u>	<u>2,106</u>
	<u>113,885</u>	<u>121,945</u>

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

13. INVENTORIES

	As at 30 June 2024 <i>RMB'000</i> Unaudited	As at 31 December 2023 <i>RMB'000</i> Audited
Medical hair care consumables	33,446	38,284
Pharmaceuticals and medical consumables	15,227	18,184
Wash and hair care products	11,098	16,041
Others	2,845	3,496
	<u>62,616</u>	<u>76,005</u>
Less: allowance for impairment of inventories	<u>—</u>	<u>—</u>
	<u>62,616</u>	<u>76,005</u>

14. TRADE AND OTHER PAYABLES

	As at 30 June 2024 <i>RMB'000</i> Unaudited	As at 31 December 2023 <i>RMB'000</i> Audited
Trade payables	61,509	76,166
Accrued employee benefits	56,872	68,556
Tax payables	15,775	17,201
Refund liabilities	10,415	12,009
Accrued expenses	9,403	15,037
Security deposit	7,686	12,666
Note payable	—	3,250
Others	6,544	5,988
	<u>168,204</u>	<u>210,873</u>

- (a) The carrying amounts of trade and other payables are considered to be approximated to their fair values, due to their short-term nature.

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

	As at 30 June 2024 RMB'000 Unaudited	As at 31 December 2023 RMB'000 Audited
Up to 3 months	50,741	54,618
3 to 6 months	5,237	15,872
6 months to 1 year	2,582	2,727
1 to 2 years	1,274	1,051
Over 2 years	1,675	1,898
	<u>61,509</u>	<u>76,166</u>

15. CONTRACT LIABILITIES

	As at 30 June 2024 RMB'000 Unaudited	As at 31 December 2023 RMB'000 Audited
Contract liabilities		
Medical hair care	168,400	153,494
Hair transplant	22,150	18,354
Others	8,578	10,507
	<u>199,128</u>	<u>182,355</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 30 June	
	2024	2023
	RMB'000	RMB'000
Medical hair care	77,154	59,542
Hair transplant	6,560	2,958
Others	4,288	5,252
	<u>88,002</u>	<u>67,752</u>

(ii) Unsatisfied contracts

Management expects that the amount of approximately RMB123 million of the transaction to unsatisfied obligations as at 30 June 2024 (31 December 2023: approximately RMB99 million) will be recognised as revenue within next one year. The remaining amount will be recognised in more than one year.

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” (雍禾髮之初) for our female aesthetic hair transplant service, and “Harvard” (哈髮達) for our medical wig products. As at 30 June 2024, we operated 72 hair transplant clinics in 68 cities nationwide, and 9 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 74,748.

The following map illustrates the relevant information of our clinic network as at 30 June 2024:



The following table illustrates the distribution of our clinics/stores by city tier*:

	As at 30 June 2024	As at 31 December 2023
Yonghe Hair Transplant clinics		
Tier-one cities	6	6
New tier-one cities	18	17
Tier-two cities	30	31
Tier-three cities	17	20
Hong Kong	1	1
	<hr/>	<hr/>
Subtotal	72	75
	<hr/>	<hr/>
Stand-alone Svenson stores		
	As at 30 June 2024	As at 31 December 2023
Shenzhen	4	6
Guangzhou	2	4
Shanghai	2	2
Beijing	1	1
	<hr/>	<hr/>
Subtotal	9	13
	<hr/>	<hr/>
Total	81	88
	<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 30 June 2024, the Group had a revenue of RMB900.2 million, representing an increase of 8.7% as compared with that of RMB827.8 million for the same period in 2023. Gross profit was RMB529.4 million, representing an increase of 13.2% as compared with that of RMB467.6 million for the same period in 2023 and generating a gross profit margin of 58.8%.

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

	Six months ended 30 June							
	2024				2023			
	Revenue		Gross profit		Revenue		Gross profit	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Hair transplant service	672,885	74.8	414,970	61.7	640,798	77.4	385,341	60.1
Medical hair care service	215,176	23.9	111,605	51.9	171,684	20.7	77,351	45.1
Others	12,142	1.3	2,862	23.6	15,325	1.9	4,906	32.0
Total	900,203	100	529,437	58.8	827,807	100	467,598	56.5

Hair Transplant Service

For the six months ended 30 June 2024, our revenue from hair transplant service amounted to RMB672.9 million, representing an increase of 5.0% over the same period of last year and accounting for 74.8% 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 2024, we further implemented our “fixed-price” pricing strategy. Under the industry-leading pricing model, not only did we clarify the overall cost structure of our hair transplant service, we also embodied our commitment to precise control over all aspects of hair transplant surgical procedures, ensuring that our patients would be well-informed in their decision-making and would receive the whole chain of our premium and professional services from pre-operative diagnosis and treatment to post-operative nursing care. In addition, we launched a programme named “Good Doctors are Around” under which we dispatched famous physicians to deliver medical checks across the country. By adopting this innovative service model, we have transcended geographical boundaries, promoted a balanced allocation of quality medical resources and provided patients with a more convenient access to their own preferred physicians. Our efforts in precise matching between patients and physicians and formulation of personalised treatment solutions are aimed towards bringing patients experience of tailored hair transplant service, ensuring the maximum treatment efficacy and enhancing the service standards in the hair transplant service sector.

For the six months ended 30 June 2024, we achieved a steady 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 29,272, representing an increase of 3.4% as compared with the same period of last year. In particular, the number of patients who received our “Yongxiang” (雍享) service increased significantly by 31.1% as compared with the same period of last year.

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

	Unaudited Six months ended 30 June 2024	2023
Number of patients who received our hair transplant service	29,272	28,304
Average spending per hair transplant patient (RMB)	22,987	22,640

Three levels of services	Number of patients	Percentage	Number of patients	Percentage
Number of patients who received services from our business chiefs	19,637	67.1%	19,564	69.1%
Number of patients who received services from our business deans	7,935	27.1%	7,443	26.3%
Number of patients who received our “Yongxiang” (雍享) service*	1,700	5.8%	1,297	4.6%

* *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 30 June 2024, our revenue from medical hair care service amounted to RMB215.2 million, representing an increase of 25.3% compared to the same period of the previous year, accounting for 23.9% of our total revenue. As a pioneer in China’s medical hair care industry, we have provided professional and customised diagnosis and treatment services to our patients through Svenson Medical Hair Care Centers in our hair transplant clinics under the “shop-in-shop” model. To further boost a broader development of our medical hair care service, we have provided our medical-grade hair health management 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 30 June 2024, the number of patients who received our medical hair care service was 49,683, representing an increase of 21.9% over the same period of last year. The repurchase rate of our medical hair care service packages was 29.0%.

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

	Unaudited	
	Six months ended 30 June	
	2024	2023
Number of patients who received our medical hair care service	49,683	40,758
Average spending per medical hair care patient (RMB)	4,331	4,212
* Repurchase rate	29.0%	26.4%

* *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

Effective cost control and significant increase in operational efficiency

During the Reporting Period, in response of the complex challenges and potential opportunities in the hair-related healthcare service industry, the Group implemented a series of strategic adjustment measures to strengthen its cost control mechanism, optimise its operational efficiency and enhance its profitability. These initiatives have demonstrated the Group’s excellence in business resilience and adaptability. We carried out in-depth data analyses and operational performance evaluations of the Group’s clinics nationwide for identifying and addressing the different needs among local markets. On this basis and having considered the density of our clinic distribution, we carefully executed our consolidation strategy in the new and old clinic covered areas and appropriately extended the market inspection period for our start-up clinics with a view to make our business decisions more precisely.

Moreover, we were audacious in innovating new service models aiming at strengthening our capabilities in internal resource integration and cross-clinic collaboration. For example, we launched the programme of “nationwide medical checks by famous physicians from Beijing, Shanghai and Guangzhou” and promoted value-added services such as “surgical support across clinic covered areas and cities”. These initiatives have not only allowed us to meet diverse market needs precisely but also made the layout of the Group’s clinic network far more scientific and rational and ensured the optimal deployment and utilisation efficiency of our medical resources. With these visionary management and service upgrades, the Group’s competitiveness and leadership in the hair-related healthcare sector have been further strengthened.

Amid the provisional changes in economic environment and market demand, we took a relatively prudent approach to clinic establishment for cost control and enhanced operational efficiency. During the Reporting Period, we opened two Yonghe Hair Transplant clinics and two Svenson centers. Meanwhile, to optimise the allocation of our medical resources, enhance the efficiency of our resource deployment and improve the overall quality of our services, we closed down five Yonghe Hair Transplant clinics and six 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* as at the dates indicated:

	As at 30 June 2024	As at 31 December 2023
Mature-stage clinics	52	47
Developing-stage clinics	12	12
Newly-established clinics	8	16
Total	<u>72</u>	<u>75</u>

* *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.*

Leading industry development with improved quality of medical services

The Group has always been committed to promoting high-quality development of hair-related healthcare services. During the Reporting Period, the Group upgraded its brand through the strategy of “good doctor + good system”, leading the industry into the hair transplant 3.0 era. Firmly underpinned by the “good doctor” strategy, we stressed the importance of providing professional training and assessments to our physicians for enhancing the communication efficiency between our physicians and patients and further optimising the quality of our medical services. We underwent systematic upgrades in five dimensions including diagnosis and treatment, hair transplantation, aesthetics, hair nourishment and comfort, with aims to make our medical services personalised and professional, thereby provide more comprehensive and personalised solutions for our patients. With focus on providing medical services, we adhered 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, enabling us to further consolidate the leadership of the Group and lead the hair-related healthcare industry toward high-quality development.

As at 30 June 2024, the Group built a professional medical team consisting of 1,503 members:

	As at 30 June 2024
Our professional team	1,503
– Physicians	282
– Nurses	1,125
– Other medical professionals (including pharmacists and clinical scientists)	<u>96</u>

During the Reporting Period, we entered into strategic cooperation agreements with a number of outstanding pharmaceutical companies respectively for the purposes of integrating the core competitiveness and deepening the cooperation in the areas of hair loss prevention and control and hair transplantation between two sides to jointly promote innovation and upgrade in the hair-related healthcare industry. By fully capitalising on the unique positioning of our medical services and our professional advantages and combining the advanced technologies, market channels and brand effects of our partners, we reshaped the competitive landscape in the industry and explored and implemented an innovative four-in-one model covering research and development, production, sales and application, which allowed us to entirely meet diverse consumer demands and offer better, safer and more personalised hair health solutions. In addition, we further maintained close cooperative bonds with a number of reputable medical schools and Grade 3A hospitals. We joined forces with them to drive development of the hair-related healthcare sector through various academic seminars and joint scientific research projects.

Pursuing refined marketing strategy for brand value enhancement

In order to adapt to market changes and higher consumer aspirations, the Group continued to pursue its brand refreshment and refined marketing strategies. During the Reporting Period, we adopted the following approaches to strengthen our “Yonghe” brand positioning, optimise our sales process and introduce new communication methods, and thereby our brand awareness and market influence were further enhanced:

We identified the core values and differentiated advantages of our brand after conducting an in-depth analysis and study on our target customer group. Our new positioning under the “hair transplant 3.0 era” has highlighted the Group’s leading role in the industry in terms of medical service quality, system innovation for hair transplant service and patient experience which effectively enhanced consumers’ confidence and loyalty to our brand.

As to our marketing strategy, the Group adopted a marketing approach integrating multiple channels and touchpoints to reach its target customer group from all directions through optimised sales process. During the Reporting Period, with the use of our data analysis and precise investment, we achieved a higher conversion rate while controlling our marketing costs. We further improved our standardised operational management system for users in the private domain and established a closed-loop marketing through WeCom (企業微信), our mini program and our official account, enabling precise reach to our tiered customers. We also strengthened our post-operative tracking services which enhanced the loyalty and attachment of customers to us and raised the standards of our overall customer relationship management.

Adherence to technological innovation and continued promotion of smart technology development

Both innovation and application of digital technology are important means of increasing operational efficiency and enhancing customer experience. During the Reporting Period, we managed to increase our operational efficiency and enhance our customers' experience while lowering our operating costs and made substantial progress in the development of information and digital technology by taking the following initiatives:

In connection with the development of information technology for clinic operation, "Hefan", the Group's self-developed operational management system, has been put into trial operation in all of our clinics. The system has functions covering all aspects in the whole process of services from reception, face-to-face consultation, medical treatment, surgery, to nursing care, allowing us to establish an archive of whole-life cycle digital health records that would increase our business efficiency and enhance customers' experience.

In the area of artificial intelligence (AI) Agent, especially in view of the trend that large language models (LLM) are widely used in application hierarchy, the Group spearheaded innovation with its skillful integration of AI robotic tools into the process of online consultation service. Therefore, the Group's manpower efficiency has fundamentally enhanced with the speed of first interaction response time improved by 85%. In the area of scalp health assessment, our use of image model algorithms, which automatically analyse the counts of hair follicles and the diameters of hair within the default scalp areas, enabled us to generate reports on patients' scalp environment and hair health status in no time. This innovation has not only significantly shortened our diagnosis time, it also provides strong data support for our personalised treatment recommendations.

PROSPECTS

The hair-related healthcare service market is in a stage of rapid development with huge unmet market demand and enormous growth potential. In the first half of 2024, the number of patients who received our medical hair care service was 49,683, representing an increase of 21.9% over the same period of last year. We expect that there will be an increasing number of patients in demand of alopecia treatment and hair restoration 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 and will maintain continuous growth in a virtuous circle.

Refined clinic operation with reduced costs and increased efficiency

While adhering to the core value of maintaining medical service quality, the Group will continue to relentlessly develop a refined operation system and increase its operational efficiency to ensure efficient resource utilisation and effective cost control. We will use data as the driving force and process optimisation as the approach, striving to develop an operating model that is highly efficient and sustainable so as to enhance our overall competitiveness.

Firstly, in terms of cost control and resource optimisation, we will continue to further implement our lean management strategy. We seek to precisely set our operational goals and further enhance the efficiency of resource deployment by introducing advanced data analysis tools and management approaches. On top of further optimising the network coverage of our hair transplant clinics and medical hair care centers, we will also strengthen the cooperation among our clinics and adopt standardised process and automation tools for the promotion of coordinated development of all aspects and enhancement of frontline management efficiency and cost control capabilities.

Secondly, we will place greater importance on talent cultivation and management. To reduce our labour and administrative costs, efforts will be made to fully upgrade our digital and automation technologies for human resources management and optimise our standard operating procedures and management model. We will also establish a more comprehensive performance appraisal system to ensure the maximum utilisation of medical resources and enhance employee motivation for a higher manpower efficiency.

Furthermore, we will continue to promote innovative clinic management on the foundation of refined operation. By introducing new technologies and optimising management processes, we will continue to push forward the development of our "smart clinics" in which data analysis and AI technologies will be used to improve the accuracy and response speed of our medical services. We will also keep optimising our supply chain management system to further increase our cost effectiveness and ensure efficient and stable operation of the Group as a whole.

Reinforce operational capability and medical service capability

Amid continuous industry advancement and escalating expectations from patients, we will continue to enhance our service standard to meet diverse market demands. We will strive to increase patients' confidence, satisfaction and loyalty by providing better medical services, so as to boost good word-of-mouth reputation and continued business growth. To further reinforce the Group's operational and medical service capabilities, we will implement the following strategies:

Firstly, we will promote our differentiated services based on the characteristics of different local markets to meet the diverse needs of patients in medical services, and develop a more rigorous assessment mechanism that ensures continual quality improvement of our medical services. We will perform a process reengineering and a comprehensive upgrade of standardised operations for our highlighted clinics, so as to ensure that their operational efficiency and patients' satisfaction are further enhanced without affecting their service quality.

Secondly, in furtherance of deepening the implementation of the "good doctor + good system" strategy, the Group will continually introduce advanced technologies and equipment and step up their applications. It is our plan to promote the pilots of 3D-simulated hair transplant design and intelligent hair transplant surgery in more clinics and gradually radiate to major cities across the country, in a bid to sharpen the precision of our hair transplant techniques and enhance the quality of patients' experience.

Furthermore, we will devote great efforts to develop a medical service system which is patient-centered and has multiple channels for further improving customers' experience of our whole-life cycle services. We will integrate our online and offline resources to enhance the overall service standards of our hospitals and create more personalised and more convenient service models which will enable us to meet the ever-changing market demands and gain greater customer recognition and loyalty to our brand.

Lastly, the Group will intensify its compliance management to ensure the regulated and standardised operations of our medical services. We will strengthen our risk control measures and improve our various contingency plans so as to ensure that we can respond and handle any emergencies in a swift manner for safeguarding our patients' safety and maintaining the stable operation of the Group. We are also confident that these initiatives will significantly enhance our competitive strengths in the field of hair transplant service, allowing the Group to achieve sustainable development and long-term growth while consolidating its leadership in the industry.

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 other hair-related healthcare service providers, enables us to further improve patients' experience, enhance patients' loyalty, solidify our leading position in keenly competitive market environments, and provide continued momentum for our future growth. Always keeping the concept of technological innovation in mind, we will continue to push forward the Group's digital and smart operations by taking the following initiatives:

- **Smart AI model empowering business:** We will map out customer-based whole-process service paths along which smart AI models will be introduced at the stages of lead tracking, deal making and post-operative services to empower our frontline business staff. We will complete Yonghe's pilot project of "3D-simulated Hair Transplant Design Solutions" to realise product capabilities such as 3D curved surface imaging, aesthetic design and post-hair transplant effect simulation, which can increase our manpower efficiency and further enhance our customers' experience and satisfaction.
- **Launching of our intelligent quality inspection system:** We will complete our "intelligent quality inspection system" project and once the system is launched, we will be able to expand the scope and increase the efficiency of our quality inspection activities, improve our service quality and consistency, and ensure precise control over all aspects. In addition, by analysing the data accumulated in the intelligent quality inspection system, we will gain valuable business insights that can support our business decision-making at the group level.
- **Paperless clinic practice:** We will fully implement our "paperless clinics" practice by converting all customers' invoices and reports online. We will also develop better information security system, further upgrade our technology for cloud security and strengthen our data privacy protection. With these efforts, our customers' information can be better protected in the course of the Group's transitioning to digital and smart operation.

Moving forward, the Group will firmly take technological innovation as the driver for further accelerating its transitioning to digital and smart operations, continually optimising its operational efficiency and strengthening its capabilities in providing medical services. Through in-depth integration of technology and management, we anticipate to provide patients with more precise and efficient medical services, thereby further enhance our brand influence and market competitiveness, and materialise the Group's goal of achieving sustainable development.

FINANCIAL REVIEW

Revenue

During the six months ended 30 June 2024, the Group had a revenue of RMB900.2 million (the same period in 2023: RMB827.8 million), representing an increase of 8.7% over the same period in 2023. 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 30 June			
	2024		2023	
	RMB'000	%	RMB'000	%
Hair transplant service	672,885	74.8	640,798	77.4
Medical hair care service	215,176	23.9	171,684	20.7
Others	12,142	1.3	15,325	1.9
	<u>900,203</u>	<u>100</u>	<u>827,807</u>	<u>100</u>

Revenue from hair transplant service

The Group's revenue from hair transplant service was RMB672.9 million for the six months ended 30 June 2024, representing an increase of 5.0% as compared with RMB640.8 million for the same period in 2023. The increase in revenue from hair transplant service was mainly attributable to the increased number of our patients, which increased by 3.4% from 28,304 for the six months ended 30 June 2023 to 29,272 for the six months ended 30 June 2024.

Revenue from medical hair care service

The Group's revenue from medical hair care service was RMB215.2 million for the six months ended 30 June 2024, representing an increase of 25.3% as compared with RMB171.7 million for the same period in 2023. The increase in revenue from medical hair care service was mainly attributable to the increased number of our medical hair care patients, which increased by 21.9% from 40,758 for the six months ended 30 June 2023 to 49,683 for the six months ended 30 June 2024.

Revenue from other services

The Group's revenue from other services was mainly derived from the rendering of services and sales of goods by our stand-alone Svenson stores for routine services, which amounted to RMB12.1 million for the six months ended 30 June 2024, representing a decrease of 20.8% as compared with RMB15.3 million for the same period 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 periods indicated:

	Six months ended 30 June			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Staff costs	142,032	38.3	140,983	39.1
Amortisation and depreciation charges	152,677	41.2	135,846	37.7
Cost of inventories and consumables	50,549	13.6	58,081	16.1
Operation related expenses	19,596	5.3	17,518	4.9
Other expenses	5,912	1.6	7,781	2.2
	<u>370,766</u>	<u>100</u>	<u>360,209</u>	<u>100</u>

During the six months ended 30 June 2024, the Group incurred costs of RMB370.8 million (the same period in 2023: RMB360.2 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 the increase of revenue during the Reporting Period. 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 clinics in operation during the six months ended 2024 as compared to the same period of 2023.

Gross profit and gross profit margin

During the six months ended 30 June 2024, the Group recorded a gross profit of RMB529.4 million (the same period in 2023: RMB467.6 million), representing an increase of 13.2% over the same period of last year. Our gross profit margin was 58.8% (the same period in 2023: 56.5%).

Other income

The Group's other income mainly consists of government grants and additional value-added tax credit. During the six months ended 30 June 2024, the Group had other income of RMB0.8 million (the same period in 2023: RMB1.2 million).

General and administrative expenses

During the Reporting Period, the Group's 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) amortisation and depreciation charges; and (v) travelling and entertainment expenses. The following table sets forth a breakdown of our general and administrative expenses by nature for the periods indicated:

	Six months ended 30 June			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Staff costs	97,483	69.1	119,976	68.6
Operation related expenses	9,096	6.5	14,086	8.1
Amortisation and depreciation charges	9,441	6.7	8,967	5.1
Professional and consulting service fees	6,757	4.8	7,734	4.4
Travelling and entertainment expenses	4,952	3.5	6,350	3.6
Others	13,241	9.4	17,748	10.2
	<u>140,970</u>	<u>100</u>	<u>174,861</u>	<u>100</u>

During the six months ended 30 June 2024, the Group incurred general and administrative expenses of RMB141.0 million (the same period in 2023: RMB174.9 million). In particular, our staff costs decreased which was mainly attributable to our workforce optimisation efforts and organisational structure adjustments.

Selling and marketing expenses

During the Reporting Period, the Group's selling and marketing expenses primarily consist of marketing and promotion expenses, staff costs, etc. The following table sets forth a breakdown of our selling and marketing expenses by nature for the periods indicated:

	Six months ended 30 June			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Marketing and promotion expenses	322,749	69.7	345,161	69.2
Staff costs	119,716	25.9	127,148	25.5
Travelling expenses	5,892	1.3	8,970	1.8
Operation related expenses	3,101	0.7	5,748	1.2
Amortisation and depreciation charges	6,457	1.4	7,307	1.5
Others	4,658	1.0	4,068	0.8
	<u>462,573</u>	<u>100</u>	<u>498,402</u>	<u>100</u>

During the six months ended 30 June 2024, the Group incurred selling and marketing expenses of RMB462.6 million (the same period in 2023: RMB498.4 million). In particular, our marketing and promotion expenses decreased which was mainly attributable to the refined marketing strategy implemented by the Group.

Income tax credit

During the six months ended 30 June 2024, the Group's income tax credit decreased by 73.4% to RMB8.1 million from RMB30.2 million for the six months ended 30 June 2023. Such change in income tax credit was primarily attributable to the decrease in deferred income tax recognised for the temporary loss for the current period.

Net loss and net loss margin

As a result of (i) the revenue growth due to our improved operational efficiency; and (ii) the dual-effect optimisation of marketing and human resources which boosted savings and efficiencies in costs and expenses, the Group's net loss decreased from RMB226.2 million for the six months ended 30 June 2023 to net loss of RMB138.6 million for the six months ended 30 June 2024. The Group's net loss margin dropped from 27.3% for the six months ended 30 June 2023 to net loss margin of 15.4% for the six months ended 30 June 2024.

Cash and cash equivalents

As at 30 June 2024, the Group had cash and cash equivalents of RMB533.8 million (31 December 2023: RMB603.2 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:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from/(used in) operating activities	73,974	(24,978)
Net cash (used in)/generated from investing activities	(18,282)	163,055
Net cash used in financing activities	(125,169)	(210,537)
Cash and cash equivalents at beginning of the periods	603,215	565,093
Cash and cash equivalents at end of the periods	533,780	486,842

Liquidity and Capital Resources

As at 30 June 2024, the Group had cash and cash equivalents of RMB533.8 million (31 December 2023: RMB603.2 million). As at 30 June 2024, the Group had bank borrowings of RMB132.6 million (31 December 2023: RMB152.8 million).

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 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Payments for property, plant and equipment	13,966	107,083
Payments for intangible assets	4,398	540
Total	18,364	107,623

During the six months ended 30 June 2024, the Group incurred capital expenditures of RMB18.4 million (During the six months ended 30 June 2023: RMB107.6 million).

Indebtedness

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

	30 June	31 December
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Audited
Current		
Bank borrowings	132,628	152,816
Lease liabilities	147,608	170,044
Non-current		
Lease liabilities	623,825	772,693
Total	904,061	1,095,553

Bank borrowings

As at 30 June 2024, the Group had outstanding interest-bearing bank borrowings of RMB132.6 million (31 December 2023: RMB152.8 million). Our bank loans bear interest at rates ranging from 2.9% to 3.4% per annum (2023: 2.6% to 3.4%).

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 30 June 2024, the Group (as lessee) had total lease liabilities of RMB771.4 million (31 December 2023: RMB942.7 million), which were unsettled for the remaining terms of the relevant lease agreements.

Future plan for material investments and capital assets

Save as disclosed in the Prospectus, as at 30 June 2024, the Group did not have any future plan for material investments and capital assets.

Charge of assets

There was no charge on the Group's assets as at 30 June 2024.

Gearing ratio

Gearing ratio is calculated using bank loans and other borrowings divided by total equity as of the end of the relevant period and multiplied by 100%. As at 30 June 2024, the Group's gearing ratio was 16.5% (31 December 2023: 16.2%).

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 30 June 2024, the Group had the cash and cash equivalents of RMB7.5 million denominated in foreign currencies, mainly USD (31 December 2023: RMB13.2 million, mainly HKD). We monitor foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

Contingent liabilities

As at 30 June 2024, the Group did not have any material contingent liabilities (31 December 2023: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2024, the Group had a total of 3,826 employees, among which 1,503 employees are our professional medical team members. Staff costs were RMB371.3 million for the six months ended 30 June 2024, as compared to RMB399.7 million for the six months ended 30 June 2023.

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.

INTERIM DIVIDEND

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

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 AND CHANGE IN USE OF PROCEEDS

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 received by the Company, after deducting related underwriting fees and expenses payable by the Company in connection with the global offering, were approximately HKD1,526.2 million (the “**Net Proceeds**”).

On 30 March 2023, the Board resolved to change the use of the unutilised Net Proceeds. Please refer to the Prospectus and the announcement of the Company dated 30 March 2023 for details.

On 22 August 2024, the Board resolved to further change the use of the unutilised Net Proceeds. As at 30 June 2024, the unutilised Net Proceeds amounted to HKD507.0 million. As at 22 August 2024, the unutilised Net Proceeds amounted to approximately HKD500.1 million. An analysis of Actual use of Proceeds during the six months ended 30 June 2024 and the proposed change in the use of the unutilised Net Proceeds, as well as the expected timeline for full utilisation, is set out as below:

Use of proceeds	Planned applications ⁽²⁾ <i>HK\$ million</i>	Amount unutilised as at 31 December 2023 <i>HK\$ million</i>	Actual amount	Amount unutilised as at 30 June 2024 <i>HK\$ million</i>	Revised amounts of unutilised Net Proceeds as at 22 August 2024 <i>HK\$ million</i>	Expected timeline for full utilisation ⁽¹⁾
			of Proceeds utilised during the six months ended 30 June 2024 <i>HK\$ million</i>			
1 To expand and upgrade existing hair transplant clinics in our network in China	64.7	0	0	0	0	N/A
2 To fund our innovations in product and service offerings	222.3	149.4	18.2	131.2	88.6	By December 2025
3 For investment in research and development to upgrade our service system with cutting-edge technology	136.1	105.0	11.5	93.5	38.2	By December 2025
4 To integrate industry resources to raise brand awareness in China	378.3	282.3	0	282.3	122.3	By December 2025
5 To settle the outstanding balance of the acquisition consideration payable for our acquisition of Nu/Hart Hair	0	0	0	0	0	N/A
6 For our working capital and general corporate purposes	24.2	0	0	0	251.0	By December 2025
Total	825.6	536.7	29.7	507.0	500.1	

- Notes:* (1) 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.
- (2) Representing the revised planned application of unutilised Net Proceeds, following the change in use of proceeds announced in 30 March 2023.

As disclosed in the announcement of the Company dated 22 August 2024, the reasons and benefits for the change in the use of proceeds are summarised as follows:–

- 1) The Company's collaboration with pharmaceutical companies to innovate medical care products has resulted in a significant reduction in related research and development costs. Therefore, HKD40.0 million of the net proceeds will be reallocated to working capital from the category of "To fund our innovations in product and service offerings".
- 2) The Group's investment in research and development and advanced technology to upgrade the service system has led to decreased costs for building the data analysis team, and the construction of intelligent hospitals has largely been completed. Therefore, HKD51.0 million will be reallocated to working capital.
- 3) Due to the economic environment, the Company has slowed the pace of institutional expansion and closed some self-operated clinics to reduce costs. The Group also expects to temporarily halt the acquisition of regional non-chain hair transplant institutions. As a result, HKD160.0 million of the net proceeds will be reallocated to working capital from the category of "To integrate industry resources to raise brand awareness in China".

The Board confirms that there has been no material change in the nature of the Group's business as described in the Prospectus. The Board considers that the above changes in the use of Net Proceeds are fair and reasonable, as this will enable the Group to more effectively deploy its financial resources, thereby enhancing the Group's profitability, and are therefore in the best interests of the Group and its shareholders as a whole. The Board will continue to evaluate the plans for the unutilised Net Proceeds and may revise or amend these plans as necessary to respond to changing market conditions and to achieve better business performance for the Group.

Please refer to the announcement of the Company dated 22 August 2024 for further details.

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

During the six months ended 30 June 2024, the Company has repurchased a total of 1,608,000 Shares of the Company on the Stock Exchange, representing 0.31% of the total share capital of the Company as at 30 June 2024. The total amount paid was approximately HK\$1,998,120 (excluding transaction fees).

The monthly report on Shares repurchase was as follows:

Month of repurchase	Number of shares repurchased	Price per share		Total amount (HK\$)
		Highest (HK\$/per share)	Lowest (HK\$/per share)	
January 2024	216,000	2.05	1.90	426,425
April 2024	702,500	1.21	0.92	772,760
May 2024	642,500	1.27	1.05	747,145
June 2024	47,000	1.15	1.01	51,790

The Board believes that repurchase of shares under the current market conditions will demonstrate the Company's confidence in the development and prospects of its business and will ultimately benefit the Company and create a return of value for the Shareholders, which is in the interests of the Company and the Shareholders as a whole. The repurchase of shares has been carried out in accordance with the repurchase mandate granted to the Board at the 2023 annual general meeting of the Company.

On 14 June 2024, the Company has cancelled 1,561,000 Shares repurchased from 18 January 2024 to 31 May 2024. Accordingly, the number of issued shares of the Company reduced by 1,561,000 Shares to 525,519,416 Shares.

Save as set forth above, during the Reporting Period, the Group and any of its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

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 auditor 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 interim financial information of the Group for the six months ended 30 June 2024) of the Group. The unaudited consolidated interim financial information was reviewed by the Company's independent auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

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) and the Company (www.yonghegroup.cn), and the 2024 interim report containing all the information required by the Listing Rules will be 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 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”	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 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 six-month period from 1 January 2024 to 30 June 2024
“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
“USD” or “US\$”	United States dollars, the lawful currency of the United States of America
“%”	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, 22 August 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.